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 (as amended by a first supplemental deed dated 26 March 2018 and a second supplemental deed dated 20 April 2018) (collectively 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 84 to 141 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
20 March 2019

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 84 to 141 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 2018, 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
20 March 2019

INDEPENDENT AUDITORS' REPORT

Unitholders
BHG Retail REIT
(Constituted under a Trust Deed dated 18 November 2015 (as amended) in the Republic of Singapore)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of BHG Retail REIT (the "REIT") and its subsidiaries (the "Group"), which comprise the statement of financial position and the portfolio statement of the Group and the statement of financial position of the REIT as at 31 December 2018, the statement of total return, distribution statement, statement of movements in Unitholders' funds and statement of cash flows of the Group and the statement of total return, distribution statement and statement of movements in Unitholders' funds of the REIT for the year then ended, and notes to the financial statements, including a summary of significant accounting policies as set out on pages 84 to 141.

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 and portfolio holdings of the Group and the financial position of the REIT as at 31 December 2018 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.

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.

<table>
<tr><td colspan="2">Valuation of investment properties
Refer to Note 4 to the financial statements</td></tr>
<tr><td>The key audit matter</td><td>How the matter was addressed in our audit</td></tr>
<tr><td rowspan="3">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 statement of financial position, at $808.3 million (2017: $811.1 million) as at 31 December 2018.

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.</td><td>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.</td></tr>
<tr><td>Our findings</td></tr>
<tr><td>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.</td></tr>
</table>

Other information

BHG Retail Trust Management Pte. Ltd., the Manager of the REIT (the "Manager"), is responsible for the other information. The other information comprises the Overview, Performance Review, Business Highlights, Sustainability Report 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.

- 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
20 March 2019

STATEMENTS OF FINANCIAL POSITION

As at 31 December 2018

		Group		REIT	
	Note	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Non-current assets					
Investment properties	4	808,303	811,116	–	–
Plant and equipment	5	630	690	–	–
Interests in subsidiaries	6	–	–	524,512	525,088
Trade and other receivables	7	36	123	–	–
Deferred tax assets	8	21	22	–	–
		808,990	811,951	524,512	525,088
Current assets					
Trade and other receivables	7	5,289	4,160	495	189
Cash and cash equivalents	9	55,590	72,081	112	547
		60,879	76,241	607	736
Total assets		869,869	888,192	525,119	525,824
Non-current liabilities					
Loans and borrowings	10	–	215,500	–	147,690
Trade and other payables	11	1,207	1,843	24,939	–
Security deposits		5,157	4,461	–	–
Deferred tax liabilities	8	29,952	24,404	–	–
		36,316	246,208	24,939	147,690
Current liabilities					
Loans and borrowings	10	222,142	25,972	162,548	24,760
Trade and other payables	11	17,698	19,401	1,815	1,334
Security deposits		12,830	11,730	–	–
Current tax liabilities		1,801	1,832	–	–
Derivative liabilities	12	74	–	74	–
		254,545	58,935	164,437	26,094
Total liabilities		290,861	305,143	189,376	173,784
Net assets		579,008	583,049	335,743	352,040
Represented by:					
Unitholders' funds	13	410,423	416,454	335,743	352,040
Non-controlling interests	14	168,585	166,595	–	–
		579,008	583,049	335,743	352,040
Units in issue ('000)	15	504,677	500,934	504,677	500,934
Net asset value per Unit attributable to Unitholders ($)		0.81	0.83	0.67	0.70

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

STATEMENTS OF TOTAL RETURN

Year ended 31 December 2018

	Note	Group		REIT	
		2018	2017	2018	2017
		$'000	$'000	$'000	$'000
Gross rental income		62,530	57,725	–	–
Dividend income		–	–	9,400	8,300
Other income		7,139	6,794	–	–
Gross revenue		69,669	64,519	9,400	8,300
Business tax		(395)	(409)	–	–
Property-related tax		(5,983)	(5,035)	–	–
Property management fees and reimbursables		(2,419)	(2,179)	–	–
Other property operating expenses	17	(15,225)	(13,952)	–	–
Total property operating expenses		(24,022)	(21,575)	–	–
Net property income		45,647	42,944	9,400	8,300
Audit fees		(301)	(289)	(145)	(145)
Manager's management fees					
- Base fee		(1,971)	(2,000)	(1,971)	(2,000)
- Performance fee		–	(282)	–	(282)
Trustee's fees		(135)	(127)	(135)	(127)
Valuation fee		(53)	(62)	(53)	(62)
Other income (non–operating)		309	513	–	–
Other operating expenses	18	(634)	(606)	(386)	(514)
Finance income		647	720	–	–
Finance costs		(9,709)	(8,952)	(6,030)	(4,834)
Net finance costs	19	(9,062)	(8,232)	(6,030)	(4,834)
Total return before change in fair value of investment properties and unrealised foreign exchange gain/(loss)		33,800	31,859	680	336
Change in fair value of investment properties	4	25,664	8,298	–	–
Foreign exchange gain/(loss) - unrealised		73	(1)	748	–
Total return for the year before taxation		59,537	40,156	1,428	336
Taxation	20	(13,889)	(8,683)	–	–
Total return for the year after taxation		45,648	31,473	1,428	336
Attributable to:					
Unitholders		31,157	20,942	1,428	336
Non–controlling interests	14	14,491	10,531	–	–
Total return for the year after taxation		45,648	31,473	1,428	336
Earnings per Unit (cents)	21				
- Basic		6.20	4.20		
- Diluted		6.17	4.18		

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

DISTRIBUTION STATEMENTS

Year ended 31 December 2018

	Note	Group 2018 $'000	Group 2017 $'000	REIT 2018 $'000	REIT 2017 $'000
Amount available for distribution to Unitholders at beginning of the year		10,126	9,154	10,126	9,154
Total return for the year attributable to Unitholders		31,157	20,942	1,428	336
Distribution adjustments	A	(11,451)	(941)	18,278	19,665
Income for the year available for distribution to Unitholders	B	19,706	20,001	19,706	20,001
Distribution to Unitholders during the year:					
- 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)
- Distribution of 2.73 cents per Unit for period from 1 July 2017 to 31 December 2017		(9,976)	–	(9,976)	–
– Distribution of 2.74 cents per Unit for period from 1 January 2018 to 30 June 2018		(10,403)	–	(10,403)	–
		(20,379)	(19,029)	(20,379)	(19,029)
Amount available for distribution to Unitholders at end of the year		9,453	10,126	9,453	10,126
Distribution per unit (cents)	*	5.16	5.47		

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

The distribution relating to 1 July 2018 to 31 December 2018 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 2018 and 2017 amounted to approximately S$5.3 million and S$5.4 million respectively.

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

DISTRIBUTION STATEMENTS

Year ended 31 December 2018

Note A – Distribution adjustments

	Group 2018 $'000	Group 2017 $'000	REIT 2018 $'000	REIT 2017 $'000
Distribution adjustment items:				
- Amortisation of debt establishment costs	376	330	152	110
- Change in fair value of investment properties[1]	(17,510)	(4,369)	–	–
- Deferred taxation[1]	4,413	1,275	–	–
- Manager's management fees paid/payable in Units	1,971	2,212	1,971	2,212
- Net income of subsidiaries not distributed to the REIT[1]	–	–	16,904	17,343
- Property Manager's management fees paid/payable in Units	757	737	–	–
- Transfer to statutory reserve	(1,492)	(1,241)	–	–
- Other adjustments[1]	34	115	(749)	–
Net effect of distribution adjustments	(11,451)	(941)	18,278	19,665

[1] Excludes share attributable to non-controlling interests

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

	Note	Group 2018 $'000	Group 2017 $'000	REIT 2018 $'000	REIT 2017 $'000
Comprises:					
- from operations		–	–	–	–
- from Unitholders' contribution		19,706	20,001	19,706	20,001
Total Unitholders' distribution	16	19,706	20,001	19,706	20,001

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

STATEMENTS OF MOVEMENTS IN UNITHOLDERS' FUNDS

Year ended 31 December 2018

	Group		REIT	
	2018	2017	2018	2017
	$'000	$'000	$'000	$'000
Unitholders' funds as at beginning of the year	416,454	421,177	352,040	367,784
Operations				
Total return for the year after taxation attributable to Unitholders	31,157	20,942	1,428	336
Transfer to statutory reserve	(1,492)	(1,241)	–	–
Net increase in net assets resulting from operations	29,665	19,701	1,428	336
Hedging reserve				
Effective portion of changes in fair value of cash flow hedges	(74)	–	(74)	–
Foreign currency translation reserve				
Translation differences from financial statements of foreign operations	(19,463)	(9,585)	–	–
Statutory reserve				
Transfer from operations	1,492	1,241	–	–
Unitholders' transactions				
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	1,971	2,212	1,971	2,212
- Units issued and to be issued as satisfaction of the portion of Property Manager's management fees payable in Units	757	737	757	737
Distributions to Unitholders	(20,379)	(19,029)	(20,379)	(19,029)
	(17,651)	(16,080)	(17,651)	(16,080)
Unitholders' funds as at end of the year	410,423	416,454	335,743	352,040

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

PORTFOLIO STATEMENT

As at 31 December 2018

Description of leasehold property	Location	Term of lease (years)	Lease expiry	Valuation as at 2018 RMB'000	Valuation as at 2017 RMB'000	Valuation as at 2018 SGD'000	Valuation as at 2017 SGD'000	Percentage of Unitholders' funds 2018 %	Percentage of Unitholders' funds 2017 %
Group									
Beijing Wanliu	No.2 Bagou Road, Haidian District, Beijing	30	2044	2,394,000	2,287,000	474,156	470,101	115	113
Chengdu Konggang	No. 166 Jinhua Road second section, Shuangliu County, Chengdu	32	2047	640,100	633,000	126,778	130,116	31	31
Hefei Mengchenglu	No.99 Mengcheng Road, Luyang District, Hefei	30	2044	605,000	584,000	119,826	120,044	29	29
Xining Huayuan	Nos.16-19 Shipo street, Chengzhong District, Xining	34	2048	280,000	280,000	55,457	57,555	13	14
Dalian Jinsanjiao	No.18 Huadong Road, Ganjingzi District, Dalian	33	2042	162,000	162,000	32,086	33,300	8	8
Investment properties, at valuation						808,303	811,116	196	195
Other assets and liabilities (net)						(229,295)	(228,067)	(56)	(55)
Net assets						579,008	583,049	140	140
Net assets attributable to non-controlling interests						(168,585)	(166,595)	(40)	(40)
Net assets attributable to Unitholders						410,423	416,454	100	100

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

STATEMENT OF CASH FLOWS

Year ended 31 December 2018

	Note	Group 2018 $'000	Group 2017 $'000
Cash flows from operating activities			
Total return for the year before taxation		59,537	40,156
Adjustments for:			
Finance income		(647)	(720)
Finance costs		9,709	8,952
Loss on disposal of plant and equipment		2	2
Depreciation of plant and equipment		125	135
Manager's management fees paid/payable in Units	(i)	1,971	2,212
Property Manager's management fees paid/payable in Units	(ii)	757	737
Change in fair value of investment properties		(25,664)	(8,298)
Foreign exchange (gain)/loss – unrealised		(73)	1
Operating income before working capital changes		45,717	43,177
Changes in:			
Trade and other receivables		(323)	4,002
Trade and other payables		(38)	1,397
Cash generated from operating activities		45,356	48,576
Tax paid		(7,400)	(5,555)
Net cash generated from operating activities		37,956	43,021
Cash flows from investing activities			
Capital expenditure on investment properties		(1,127)	(3,213)
Purchase of plant and equipment		(92)	(105)
Interest received		647	720
Net cash used in investing activities		(572)	(2,598)
Cash flows from financing activities			
Distribution to Unitholders		(20,379)	(19,029)
Dividend paid to non-controlling interests		(4,120)	(3,719)
Decrease/(Increase) in restricted cash		13,693	(15,433)
Payment of transaction costs related to loans and borrowings		–	(77)
Proceeds from borrowings		37,170	24,760
Repayment of borrowings		(54,379)	(13,026)
Settlement of derivative contracts		(108)	–
Interest paid		(9,246)	(8,345)
Net cash used in financing activities		(37,369)	(34,869)

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

STATEMENT OF CASH FLOWS

Year ended 31 December 2018

	Note	Group 2018 $'000	Group 2017 $'000
Increase in cash and cash equivalents		15	5,554
Cash and cash equivalents at 1 January		43,352	38,373
Effect of foreign exchange rate changes on cash balances		(2,176)	(575)
Cash and cash equivalents at 31 December	9	41,191	43,352

Notes:

Significant non-cash transactions

(i) The Manager's management fees for the year was $1,971,000 (2017: $2,282,000). $1,551,000 (2017: $1,512,000) was paid during the year through the issuance of 2,118,000 (2017: 2,103,000) Units. The remaining $420,000 (2017: $770,000) will be paid through the issuance of 585,000 (2017: 939,000) Units and Nil (2017: $70,000) in cash subsequent to the year end.

(ii) The Property Manager's management fees for the year was $757,000 (2017: $737,000). $579,000 (2017: $545,000) was paid during the year through the issuance of 791,000 (2017: 757,000) Units. The remaining $178,000 (2017: $192,000) will be paid through the issuance of 249,000 (2017: 258,000) Units subsequent to the year end.

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

These notes form an integral part of the financial statements.

The financial statements were authorised for issue by the Manager and the Trustee on 20 March 2019.

1. GENERAL

BHG Retail REIT (the "REIT") is a Singapore–domiciled unit trust constituted pursuant to the trust deed dated 18 November 2015 (as amended by a first supplemental deed dated 26 March 2018 and a second supplemental deed dated 20 April 2018) (collectively 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.

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).

(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 management 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;
- 2.5% per annum of the net property income of the property; and
- a one-time lease-up commission of 2 months of fixed rent for securing of new tenants for a tenancy of at least three years, commencing for new tenancies entered into from 1 January 2018.

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.

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 and valuation of financial instruments under Note 26.

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).

2. BASIS OF PREPARATION (CONT'D)

2.4 Use of estimates and judgements (cont'd)

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.

Further information about the assumptions made in measuring fair values is included in the Note 4 – investment properties and Note 26 – financial instruments.

2.5 Changes in accounting policies

The Group has applied the FRSs, amendments to and interpretations of FRSs for annual period beginning on 1 January 2018 for the first time. The adoption of these FRSs, amendments to standards and interpretations did not have a material effect on the Group's and REIT's financial statements.

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.

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

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related non-controlling interests and other components of equity. Any resulting gain or loss is recognised in statement of total return. Any interest retained in the former subsidiary is measured at fair value when control is lost.

(iii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.1 Basis of consolidation (cont'd)

(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.

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 to the functional currency 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 generally recognised in statement of total return. However, foreign currency differences arising from the translation of the following items are recognised in other comprehensive income:

- A financial liability designated as a hedge of the net investment in a foreign operation to the extent that the hedge is effective; and
- Qualifying cash flow hedges to the extent that the hedge is effective.

(ii) Foreign operations

The assets and liabilities of foreign operations 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 statement of total return as part of the gain or loss 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.2 Foreign currency (cont'd)

(iv) Hedge of net investment in foreign operation

When a non-derivative financial liability is designated as the hedging instrument in a hedge of a net investment in a foreign operation, the effective portion of foreign exchange gains and losses is recognised in Unitholders' funds and presented in the foreign currency translation reserve. Any ineffective portion of the changes in the foreign exchange gains and losses is recognised in statement of total return. The amount recognised in Unitholders' funds is reclassified to statement of total return as a reclassification adjustment on disposal of the foreign operation.

3.3 Financial instruments

(i) Recognition and initial measurement

Non-derivative financial assets and financial liabilities

Trade receivables are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Group becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

(ii) Classification and subsequent measurement

Non-derivative financial assets – Policy applicable from 1 January 2018

On initial recognition, a financial asset is classified is measured at amortised cost.

Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

Financial assets at amortised cost

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at fair value through profit or loss:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in statement of total return. Any gain or loss on derecognition is recognised in statement of total return.

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.3 Financial instruments (cont'd)

(ii) Classification and subsequent measurement (cont'd)

Non-derivative financial assets – Policy applicable before 1 January 2018

The Group classifies non-derivative financial assets into loans and receivables.

Loans and receivables

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

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

Cash and cash equivalents comprise cash balances and bank deposits.

Non-derivative financial liabilities: Classification, subsequent measurement and gains and losses

Financial liabilities are initially measured at fair value less directly attributable transaction costs. They are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in statement of total return. These financial liabilities comprised interest-bearing borrowings, security deposits, and trade and other payables.

(iii) Derecognition

Financial assets

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Group enters into transactions whereby it transfers assets recognised in its statement of financial position, but retains either all or substantively all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognised.

Financial liabilities

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire. The Group also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in statement of total return.

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.3 Financial instruments (cont'd)

(iv) Offsetting

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

(v) Cash and cash equivalents

Cash and cash equivalents comprise cash balances at bank.

(vi) Derivative financial instruments and hedge accounting

The Group holds derivative financial instruments to hedge its interest rate risk exposures.

The Group designates certain derivative financial instruments as hedging instruments in qualifying hedging relationships. At inception of designated hedging relationships, the Group documents the risk management objective and strategy for undertaking the hedge. The Group also documents the economic relationship between the hedged item and the hedging instrument, including whether the changes in cash flows of the hedged item and hedging instrument are expected to offset each other.

Cash flow hedges

The Group designates certain derivatives as hedging instruments to hedge the variability in cash flows associated with highly probable forecast transactions arising from changes in interest rates.

When a derivative is designated as a cash flow hedging instrument, the effective portion of changes in the fair value of the derivative is recognised in the hedging reserve in Unitholders' funds. The effective portion of changes in the fair value of the derivative that is recognised in the hedging reserve in Unitholders' funds is limited to the cumulative change in fair value of the hedged item, determined on a present value basis, from inception of the hedge. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in statement of total return.

The amount accumulated in the hedging reserve and the cost of hedging reserve is reclassified to statement of total return in the same period or periods during which the hedged expected future cash flows affect total return.

If the hedge no longer meets the criteria for hedge accounting or the hedging instrument is sold, expires, is terminated or is exercised, then hedge accounting is discontinued prospectively. When hedge accounting for cash flow hedges is discontinued, the amount that has been accumulated in the hedging reserve and the cost of hedging reserve remains in Unitholders' funds until, for a hedge of a transaction resulting in recognition of a non-financial item, it is included in the non-financial item's cost on its initial recognition or, for other cash flow hedges, it is reclassified to statement of total return in the same period or periods as the hedged expected future cash flows affect total return.

If the hedged future cash flows are no longer expected to occur, then the amounts that have been accumulated in the hedging reserve and the cost of hedging reserve are immediately reclassified to statement of total return.

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.3 Financial instruments (cont'd)

(vi) Derivative financial instruments and hedge accounting (cont'd)

Other non-trading derivatives

When a derivative financial instrument is not designated in a hedge relationship that qualifies for hedge accounting, all changes in its fair value are recognised immediately in the statement of total return.

3.4 Investment properties

Investment properties are properties 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 properties are measured at cost on initial recognition and subsequently at fair value with any change therein recognised in the statement of total return.

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.

Cost includes expenditure that is directly attributable to the acquisition of the investment property. The cost of self-constructed investment property includes the cost of materials and direct labour, any other costs directly attributable to bringing the investment property to a working condition for their intended use and capitalised borrowing costs.

Any gain or loss on disposal of an investment property (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in the statement of total return.

When the use of a property changes such that it is reclassified as property, plant and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

Property that is being constructed for future use as investment property is accounted for at fair value.

For taxation purposes, the Group and the Trust may claim capital allowances on assets that qualify as plant and machinery under the Income Tax Act.

3.5 Plant and equipment

(i) Recognition and measurement

Items of 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 a component 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 component will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced component is derecognised. The cost of the day-to-day servicing of plant and equipment are recognised in the statement of total return as incurred.

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.5 Plant and equipment (cont'd)

(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. The estimated useful lives for the current and comparative years are as follows:

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.

3.6 Impairment

(i) Non-derivative financial assets

Policy applicable from 1 January 2018

The Group recognises loss allowances for expected credit losses ("ECLs") on financial assets measured at amortised costs.

Loss allowances of the Group are measured on either of the following bases:

- 12-month ECLs: these are ECLs that result from default events that are possible within the 12 months after the reporting date (or for a shorter period if the expected life of the instrument is less than 12 months); or
- Lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

Simplified approach

The Group applies the simplified approach to provide for ECLs for all trade receivables. The simplified approach requires the loss allowance to be measured at an amount equal to lifetime ECLs.

General approach

The Group applies the general approach to provide for ECLs on all other financial instruments. Under the general approach, the loss allowance is measured at an amount equal to 12-month ECLs at initial recognition.

At each reporting date, the Group assesses whether the credit risk of a financial instrument has increased significantly since initial recognition. When credit risk has increased significantly since initial recognition, loss allowance is measured at an amount equal to lifetime ECLs.

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.6 Impairment (cont'd)

(i) Non-derivative financial assets (cont'd)

Policy applicable from 1 January 2018 (cont'd)

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and includes forward-looking information.

If credit risk has not increased significantly since initial recognition or if the credit quality of the financial instruments improves such that there is no longer a significant increase in credit risk since initial recognition, loss allowance is measured at an amount equal to 12-month ECLs.

The Group considers a financial asset to be in default when the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

Measurement of ECLs

ECLs are probability-weighted estimates of credit losses. Credit losses are measured at the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortised cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default;
- the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;
- it is probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

Presentation of allowance for ECLs in the statement of financial position

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of these assets.

Write-off

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.6 Impairment (cont'd)

(i) Non-derivative financial assets (cont'd)

Policy applicable before 1 January 2018

A financial asset not carried at fair value through profit or loss, including interest in joint ventures, was assessed at the end of each reporting period to determine whether there was objective evidence that it was impaired. A financial asset was impaired if objective evidence indicated that a loss event has occurred after the initial recognition of the asset, and that the loss event(s) had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets were impaired included 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 or economic conditions that correlate with defaults.

Loans and receivables

The Group considers evidence of impairment for loans and receivables at both an individual asset and collective level. All individually significant assets were individually assessed for impairment. Those found not to be impaired were then collectively assessed for any impairment that had been incurred but not yet identified. Assets that were not individually significant were collectively assessed for impairment. Collective assessment was carried out by grouping together assets with similar risk characteristics.

In assessing collective impairment, the Group uses historical information on the timing of recoveries and the amount of loss incurred, and made an adjustment if current economic and credit conditions were such that the actual losses are likely to be greater or lesser than suggested by historical trends.

An impairment loss was calculated as the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted at the asset's original effective interest rate. Losses were recognised in statement of total return and reflected in an allowance account. When the Group considered that there were no realistic prospects of recovery of the asset, the relevant amounts were written off. If the amount of impairment loss subsequently decreased and the decrease was related objectively to an event occurring after the impairment was recognised, then the previously recognised impairment loss was reversed through statement of total return.

(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 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 flows of other assets or CGUs.

Impairment losses are recognised in the statement of total return. Impairment losses recognised in respect of 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.6 Impairment (cont'd)

(ii) Non-financial assets (cont'd)

Impairment losses recognised in prior periods in respect of assets other than goodwill 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.

3.8 Employee benefits

(i) Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an employee benefit expense in statement of total return in the periods during which related services are rendered by employees.

(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 liability 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 in the statement of total return 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 in which they are earned. No contingent rentals are recognised if there are uncertainties due to the possible return of amounts received.

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.10 Revenue recognition (cont'd)

(ii) Dividend income

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

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. Current tax and deferred tax is recognised in the statement of total return except to the extent that it relates to items recognised directly in Unitholders' fund.

The Group has determined that interest and penalties related to income taxes, including uncertain tax treatments, do not meet the definition of income taxes, and therefore accounted for them under FRS 37 *Provisions, Contingent Liabilities and Contingent Assets*.

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.14 Taxation (cont'd)

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

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

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.

4. INVESTMENT PROPERTIES

	Group 2018 $'000	Group 2017 $'000
At beginning of the year	811,116	810,692
Additions during the year	1,127	3,213
	812,243	813,905
Changes in fair value	25,664	8,298
Translation differences	(29,604)	(11,087)
At end of the year	808,303	811,116

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 (2017: $4.6 million).

Fair value

Investment properties are stated at fair value based on valuation as at 31 December 2018 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 capitalisation 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 rate to arrive at the market value. The income capitalisation approach assesses the value of a property by capitalising the current passing rental income and estimates reversionary rental income of the property.

4. INVESTMENT PROPERTIES (CONT'D)

Level 3 fair values

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

Valuation methods	Significant unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurement
Discounted cash flows approach	Discount rates from 7.0% to 8.0% (2017: 7.0% to 8.0%) per annum Terminal capitalisation rates from 3.0% to 5.0% (2017: 3.0% to 5.0%)	The fair value increases as discount rates and terminal capitalisation rates decrease.
Income capitalisation approach	Term yield from 4.5% to 6.0% (2017: 4.5% to 6.0%) Reversionary rates from 5.0% to 6.5% (2017: 5.0% to 6.5%)	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).

5. PLANT AND EQUIPMENT

	Plant and machinery $'000	Motor vehicles $'000	Furniture, fittings and equipment $'000	Total $'000
Group				
Cost				
At 1 January 2017	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
Additions during the year	3	–	89	92
Disposal/written off	(1)	–	(5)	(6)
Translation difference on consolidation	(138)	(10)	(123)	(271)
At 31 December 2018	3,648	257	3,285	7,190
Accumulated depreciation				
At 1 January 2017	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
Charge for the year	3	–	122	125
Disposal/written off	–	–	(4)	(4)
Translation difference on consolidation	(131)	(9)	(106)	(246)
At 31 December 2018	3,463	245	2,852	6,560
Carrying amounts				
At 1 January 2017	182	200	351	733
At 31 December 2017	193	13	484	690
At 31 December 2018	185	12	433	630

6. INTERESTS IN SUBSIDIARIES

	REIT 2018 $'000	REIT 2017 $'000
Equity investment, at cost	2,231	1,474
Non-trade amounts due from subsidiaries	522,281	523,614
	524,512	525,088

(a) Details of the subsidiaries are as follows:

Name of subsidiaries	Place of incorporation/ business	Effective equity held by the Group 2018 %	Effective equity held by the Group 2017 %
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

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. They are stated at amortised cost, less ECL that is measured on the 12-month expected loss which reflects the low credit risk of the exposures. The amount of the allowance on those balances is not material.

7. TRADE AND OTHER RECEIVABLES

	Group		REIT	
	2018	2017	2018	2017
	$'000	$'000	$'000	$'000
Trade receivables	37	31	–	–
Other receivables	1,512	1,573	398	97
Impairment losses	(82)	(89)	–	–
	1,430	1,484	398	97
Trade and other receivables	1,467	1,515	398	97
Prepayments	3,858	2,768	97	92
	5,325	4,283	495	189
Current	5,289	4,160	495	189
Non-current	36	123	–	–
	5,325	4,283	495	189

Concentration of credit risk relating to trade and other 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.

Exposure to credit risk

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

	Group		REIT	
	2018	2017	2018	2017
	$'000	$'000	$'000	$'000
Beijing	304	556	–	–
Chengdu	119	177	–	–
Hefei	643	442	–	–
Qinghai	1	224	–	–
Dalian	2	19	–	–
Singapore	398	97	398	97
	1,467	1,515	398	97

7. TRADE AND OTHER RECEIVABLES (CONT'D)

Comparative information under FRS 39

An analysis of the credit quality of trade and other receivables that were neither past due nor impaired and the ageing of trade and other receivables that were past due but not impaired is as follows:

	Group 2017 $'000	REIT 2017 $'000
Neither past due nor impaired	950	97
Past due but not impaired		
Past due 1 – 30 days	37	–
Past due 31 – 60 days	112	–
Past due 61 – 90 days	109	–
	258	–
Total not impaired trade and other receivables	1,208	97

The Group's impaired trade receivables at 31 December 2017 had a gross amount of $396,000.

Expected credit loss assessment as at 1 January and 31 December 2018

The following table provides information about the exposure to credit risk and ECL's for trade and other receivables as at 31 December 2018:

	Group		
	Gross carrying amount $'000	Impairment loss allowance $'000	Credit impaired
Not past due	838	–	No
Past due 1 – 30 days	2	–	No
Past due 31 – 60 days	21	–	No
Past due 61 – 90 days	5	–	No
More than 90 days due	683	(82)	Yes
	1,549	(82)	

The ageing of the other receivables of the REIT is not past due and credit impaired.

7. TRADE AND OTHER RECEIVABLES (CONT'D)

Movements in allowance for impairment in respect of trade receivables

The movement in the allowance for impairment in respect of trade and other receivables during the year is as follows:

	Group 12-month ECL 2018 $'000	Group 2017 $'000
At 1 January	(89)	(87)
Adjustment on initial application of FRS 109	–	–
At 1 January per FRS 109/FRS 39	(89)	(87)
Impairment losses recovered/(recognised)	7	(2)
At 31 December per FRS 109/FRS 39	(82)	(89)

The Group's historical experience in the collection of trade and other 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 trade and other receivables, based on historical payment behaviours and the security deposits held (if applicable).

8. DEFERRED TAX ASSETS/(LIABILITIES)

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

	At 1 January 2017 $'000	Recognised in statements of total return (Note 20) $'000	Translation difference $'000	At 31 December 2017 $'000	Recognised in statements of total return (Note 20) $'000	Translation difference $'000	At 31 December 2018 $'000
Group							
Deferred tax assets							
Allowance for doubtful receivables and unutilised losses	208	(182)	(4)	22	–	(1)	21
Deferred tax liabilities							
Investment properties	(21,489)	(2,075)	235	(23,329)	(6,897)	946	(29,280)
Tax on unrepatriated profits	(1,075)	–	–	(1,075)	445	(42)	(672)
	(22,564)	(2,075)	235	(24,404)	(6,452)	904	(29,952)

9. CASH AND CASH EQUIVALENTS

	Group		REIT	
	2018	2017	2018	2017
	$'000	$'000	$'000	$'000
Cash at banks and in hand	55,590	72,081	112	547
Restricted cash	(14,399)	(28,729)	–	–
Cash and cash equivalents in statement of cash flows	41,191	43,352	112	547

10. LOANS AND BORROWINGS

	Group		REIT	
	2018	2017	2018	2017
	$'000	$'000	$'000	$'000
Unsecured loan	1,247	–	1,247	–
Secured loans	221,274	242,237	161,460	172,760
Less: Unamortised transaction costs	(379)	(765)	(159)	(310)
	222,142	241,472	162,548	172,450
Current	222,142	25,972	162,548	24,760
Non-current	–	215,500	–	147,690
	222,142	241,472	162,548	172,450

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
2018				
Group				
USD unsecured fixed rate loan	4.50	2019	1,247	1,247
SGD secured floating rate loan	1.77-2.62	2019	9,960	9,960
SGD secured floating rate loan	1.70-2.51	2019	1,000	1,000
SGD secured floating rate loan	1.71-2.51	2019	700	700
SGD secured floating rate loan	1.71-2.51	2019	1,800	1,800
SGD secured floating rate loan	2.87-3.48	2019	77,000	76,961
SGD secured floating rate loan	3.25-3.68	2019	32,000	32,000
SGD secured floating rate loan	3.47-4.11	2019	39,000	38,880
RMB secured floating rate loan	5.08	2019	47,732	47,733
RMB secured floating rate loan	5.08	2019	12,082	11,861
			222,521	222,142

10. LOANS AND BORROWINGS (CONT'D)

Terms and debt repayment schedule (cont'd)

	Nominal interest rate per annum %	Year of maturity	Face value $'000	Carrying amount $'000
2018				
REIT				
USD unsecured fixed rate loan	4.50	2019	1,247	1,247
SGD secured floating rate loan	1.77-2.62	2019	9,960	9,960
SGD secured floating rate loan	1.70-2.51	2019	1,000	1,000
SGD secured floating rate loan	1.71-2.51	2019	700	700
SGD secured floating rate loan	1.71-2.51	2019	1,800	1,800
SGD secured floating rate loan	2.87-3.48	2019	77,000	76,961
SGD secured floating rate loan	3.25-3.68	2019	32,000	32,000
SGD secured floating rate loan	3.47-4.11	2019	39,000	38,880
			162,707	162,548
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	2018-2019	56,322	56,322
RMB secured floating rate loan	5.08	2018-2019	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

10. LOANS AND BORROWINGS (CONT'D)

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 2018, 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. During 2018, the Group had repaid RMB 3 million (2017: RMB 3 million) of each of the onshore facilities, in accordance with the facility agreements, and RMB 30 million of voluntary early repayment by an onshore subsidiary.

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 unsecured facilities an amount totalling $14.0 million (2017: Nil) and from other secured bank facilities an amount totalling $23.2 million (2017: $24.8 million). The REIT had repaid $35.9 million of these facilities during the year. The secured 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.

Subsequent to the reporting date, the Group and the REIT have finalised the refinancing of the existing onshore and offshore secured borrowing facilities of $148 million and RMB 302 million respectively, secured a new borrowing facility of $67 million and a new revolving credit facility of $25 million. The average interest rate of these facilities is 4.27% per annum and the facilities mature within 3 years.

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

	Loans and borrowings $'000	Interest payable $'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	(977)	(153)	(1,130)
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

10. LOANS AND BORROWINGS (CONT'D)

Reconciliation of movements of liabilities to cash flows arising from financing activities (cont'd)

	Loans and borrowings $'000	Interest payables $'000	Total $'000
Balance at 1 January 2018	241,472	1,039	242,511
Changes from financing cash flows			
Proceeds from borrowings	37,170	–	37,170
Repayment of borrowings	(54,379)	–	(54,379)
Interest paid	–	(9,246)	(9,246)
	(17,209)	(9,246)	(26,455)
Non-cash changes			
Effects of changes in foreign exchange rates	(2,497)	179	(2,318)
Amortisation of borrowing costs	376	–	376
Interest expense	–	9,333	9,333
	(2,121)	9,512	7,391
Balance at 31 December 2018	222,142	1,305	223,447

11. TRADE AND OTHER PAYABLES

	Group		REIT	
	2018 $'000	**2017 $'000**	**2018 $'000**	**2017 $'000**
Trade payables	8,148	8,983	–	–
Interest payable	1,305	1,039	864	702
Other payables	4,979	4,700	2	72
Accrued operating expenses	2,740	2,562	908	560
Loan from subsidiary	–	–	24,939	–
Amount owing to subsidiary	–	–	41	–
Deposits and advances from tenants	1,733	3,960	–	–
	18,905	21,244	26,754	1,334
Current	17,698	19,401	1,815	1,334
Non-current	1,207	1,843	24,939	–
	18,905	21,244	26,754	1,334

The loan from subsidiary is non-trade in nature, unsecured, interest-bearing and repayable within 4 years.

12. FINANCIAL DERIVATIVES

	Group and REIT	
	2018	2017
	$'000	$'000
Derivative liabilities		
Interest rate swaps used for hedging	74	–

Interest rate swaps

The Group and the REIT use interest rate swaps to manage its exposure to interest rate movements on its floating rate interest-bearing term loans by swapping the interest expense on a proportion of these term loans from floating rates to fixed rates.

Interest rate swaps of the Group and the REIT with a total notional amount of $77.0 million (2017: Nil) and $77.0 million (2017: Nil) respectively, have been entered into at the reporting date to provide fixed rate funding for average terms of 2 years (2017: Nil) at an average interest rate of 1.96% (2017: Nil) per annum. These interest rate swaps are designated as hedging instruments in cash flow hedges.

13. UNITHOLDERS' FUNDS

		Group		REIT	
	Note	2018	2017	2018	2017
		$'000	$'000	$'000	$'000
At 1 January		416,454	421,177	352,040	367,784
Net assets resulting from operations		29,665	19,701	1,428	336
Statutory reserve	(a)	1,492	1,241	–	–
		447,611	442,119	353,468	368,120
Foreign currency translation reserve	(b)	(19,463)	(9,585)	–	–
Hedging reserve	(c)	(74)	–	(74)	–
Unitholders' distributions		(17,651)	(16,080)	(17,651)	(16,080)
At 31 December		410,423	416,454	335,743	352,040

(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.

13. UNITHOLDERS' FUNDS (CONT'D)

(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.

(c) Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments relating to forecast hedged transactions.

14. 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.

	2018 $'000	2017 $'000
Non-current assets	478,222	478,670
Current assets	39,596	38,340
Non-current liabilities	(29,356)	(79,690)
Current liabilities	(67,000)	(20,831)
Net assets	421,462	416,489
Net assets attributable to NCI	168,585	166,595
Revenue	42,461	38,478
Total return after taxation	36,229	26,328
Total return after taxation attributable to NCI	14,491	10,531
Cash flows from operating activities	20,232	14,156
Cash flows from investing activities	941	591
Cash flows used in financing activities	(18,825)	(10,562)
Net increase in cash and cash equivalents	2,348	4,185

15. UNITS IN ISSUE

	2018 Number of Units '000	2017 Number of Units '000
Issue of new Units relating to:		
- as at beginning of the year	499,737	495,560
- payment of Manager's management fees	3,057	3,149
- payment of Property Manager's management fees	1,049	1,028
	503,843	499,737
Units to be issued:		
- payment of Manager's management base fees	585	561
- payment of Manager's management performance fees	–	378
- payment of Property Manager's management fees	249	258
	834	1,197
Total Units in issue and to be issued at the end of year	504,677	500,934

Units issued during the year ended 31 December 2018 are as follows:

(a) On 6 March 2018, the REIT issued 561,000 and 378,000 new Units at an issue price of $0.7450 per Unit as payment of the base component of the Manager's management fee for the period from 1 October 2017 to 31 December 2017 and as payment of the performance component of the Manager's management fees for the period from 1 January 2017 to 31 December 2017 respectively. The REIT also issued 258,000 new Units at an issue price of $0.7450 per Unit as payment of the Property Manager's management fees for the period from 1 October 2017 to 31 December 2017.

(b) On 8 June 2018, the REIT issued 681,000 and 255,000 new Units at an issue price of $0.7764 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 2018 to 31 March 2018.

(c) On 21 August 2018, the REIT issued 710,000 and 271,000 new Units at an issue price of $0.7205 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 2018 to 30 June 2018.

(d) On 3 December 2018, the REIT issued 727,000 and 265,000 new Units at an issue price of $0.7030 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 2018 to 30 September 2018.

15. UNITS IN ISSUE (CONT'D)

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.

The issue prices 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

- 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

15. UNITS IN ISSUE (CONT'D)

- 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 Unitholders representing not less than 10.0% of the issued Units) 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.

16. 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.

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 2018 to 30 June 2018 had been paid on 27 September 2018. Distributions for the period from 1 July 2018 to 31 December 2018 will be paid within 90 days from the end of the distribution period, in accordance with the provisions of the Trust Deed.

17. OTHER PROPERTY OPERATING EXPENSES

	Group	
	2018	2017
	$'000	$'000
Advertising and promotion	2,160	1,315
Depreciation of plant and equipment	125	135
Impairment losses (recovered)/recognised on trade and other receivables	(7)	2
Repair and maintenance	3,231	3,128
Staff costs	818	229
Utilities	8,454	8,561
Others	444	582
	15,225	13,952

Included in staff costs is contribution to defined contribution plans of $113,000 (2017: $30,000).

18. OTHER OPERATING EXPENSES

	Group		REIT	
	2018	2017	2018	2017
	$'000	$'000	$'000	$'000
Professional fees	316	305	291	281
Others	318	301	95	233
	634	606	386	514

19. FINANCE INCOME AND FINANCE COSTS

	Group		REIT	
	2018	2017	2018	2017
	$'000	$'000	$'000	$'000
Finance income:				
- financial institutions	647	720	–	–
Finance costs:				
- loans and borrowings	(9,709)	(8,952)	(6,030)	(4,834)
Net finance costs recognised in statement of total return	(9,062)	(8,232)	(6,030)	(4,834)

20. TAXATION

	Note	Group 2018 $'000	Group 2017 $'000	REIT 2018 $'000	REIT 2017 $'000
Current taxation					
Current year		6,894	5,913	–	–
Withholding tax		543	513	–	–
		7,437	6,426	–	–
Deferred taxation					
Origination of temporary differences	8	6,452	2,257	–	–
Income tax expense		13,889	8,683	–	–

Reconciliation of effective tax rate

	Group 2018 $'000	Group 2017 $'000	REIT 2018 $'000	REIT 2017 $'000
Total return for the year before taxation	59,537	40,156	1,428	336

	Note	Group 2018 $'000	Group 2017 $'000	REIT 2018 $'000	REIT 2017 $'000
Tax calculated using Singapore tax rate of 17%		10,121	6,827	243	57
Adjustments:					
Effect of different tax rates in foreign jurisdictions		4,256	2,614	–	–
Income not subject to tax		(2,412)	(2,639)	(1,598)	(1,411)
Expenses not deductible for tax purposes		16	4	–	–
Tax losses not allowed to be carried forward		1,365	1,364	1,355	1,354
Withholding tax		543	513	–	–
		13,889	8,683	–	–

21. 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 and total return for the year after taxation and non-controlling interests.

	Group	
	2018 $'000	2017 $'000
Total return for the year after taxation and non-controlling interests	31,157	20,942

	Group	
	2018 Number of units '000	2017 Number of units '000
Issued Units		
- As at beginning of the year	500,934	496,877
- Manager's management fees paid/payable in Units	1,062	1,073
- Property Manager's management fees paid/payable in Units	398	381
Weighted average number of issued and issuable Units at end of the year	502,394	498,331

Diluted earnings per Unit

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

	Group	
	2018 $'000	2017 $'000
Total return for the year after taxation and non-controlling interests	31,157	20,942

	Number of Units '000	Number of Units '000
Issued Units		
- As at beginning of the year	500,934	496,877
- Manager's management fees paid/payable in Units	2,703	3,042
- Property Manager's management fees paid/payable in Units	1,040	1,015
Weighted average number of issued and issuable Units at end of the year	504,677	500,934

22. 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.

The Group and the REIT has a USD unsecured loan of $1.2 million from a Unitholder of the REIT as at 31 December 2018.

23. FINANCIAL RATIOS

	Group	
	2018	**2017**
	%	**%**
Ratio of expenses to average net asset value [(1)]		
- including performance component of Manager's management fees	0.71	0.79
- excluding performance component of Manager's management fees	0.71	0.72
Ratio of expenses to net asset value [(2)]	4.68	4.28
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 operating expenses, including all fees and charges paid to the Manager and related parties for the financial year (2018: $27,117,000 and 2017: $24,941,000) and as a percentage of net asset value as at the financial year end.

(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 sale of the investment properties during the year.

24. 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")
- Chengdu Hairong Xingda Real Property Co., Ltd. ("Chengdu Konggang")
- Hefei Hualian Rui An Shopping Mall Commercial Operation Co., Ltd. ("Hefei Mengchenglu")
- Qinghai Xinglian Real Property Co., Ltd. ("Xining Huayuan")
- Dalian Hualian Commercial Facilities Operation Co., Ltd. ("Dalian Jinsanjiao")

24. OPERATING SEGMENTS (CONT'D)

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.

Information about reportable segments

	Beijing Wanliu $'000	Chengdu Konggang $'000	Hefei Mengchenglu $'000	Xining Huayuan $'000	Dalian Jinsanjiao $'000	Total $'000
2018						
External revenues:						
- Gross rental income	38,610	10,213	8,043	3,330	2,334	62,530
- Others	3,851	1,838	1,450	–	–	7,139
- Gross revenue	42,461	12,051	9,493	3,330	2,334	69,669
Segment net property income	28,139	6,516	5,791	3,073	2,128	45,647
Finance income	226	173	483	32	49	963
Finance costs	2,779	–	1,218	–	–	3,997
Reportable segment total return before taxation	46,072	7,062	9,145	3,082	2,148	67,509
Segment assets	517,939	158,164	144,244	60,963	37,271	918,581
Segment liabilities	294,182	154,665	135,122	56,780	32,335	673,084
Other segment items:						
Depreciation	47	68	10	–	–	125
Net change in fair value of investment properties	20,384	1,150	4,130	–	–	25,664
Capital expenditure	833	342	44	–	–	1,219

24. OPERATING SEGMENTS (CONT'D)

Information about reportable segments

	Beijing Wanliu $'000	Chengdu Konggang $'000	Hefei Mengchenglu $'000	Xining Huayuan $'000	Dalian Jinsanjiao $'000	Total $'000
2017						
External revenues:						
- Gross rental income	34,962	9,251	7,903	3,298	2,311	57,725
- Others	3,516	1,751	1,527	–	–	6,794
- Gross revenue	38,478	11,002	9,430	3,298	2,311	64,519
Segment net property income	25,445	6,390	6,009	2,995	2,105	42,944
Finance income	198	79	508	32	36	853
Finance costs	2,907	–	1,346	–	–	4,253
Reportable segment total return before taxation	32,694	4,793	5,121	3,396	2,116	48,120
Segment assets	512,842	145,328	153,934	61,980	37,708	911,792
Segment liabilities	300,187	142,063	147,516	57,021	32,522	679,309
Other segment items:						
Depreciation	56	51	28	–	–	135
Impairment losses on loans and receivables, net	–	(6)	(4)	12	–	2
Net change in fair value of investment properties	9,822	(1,925)	(10)	411	–	8,298
Capital expenditure	867	2,436	15	–	–	3,318

24. OPERATING SEGMENTS (CONT'D)

Reconciliations of reportable segment revenue, total return, assets and liabilities and other material items (cont'd)

	2018 $'000	2017 $'000
Revenue		
Total revenue for reporting segments	69,669	64,519
Total return		
Total return for reportable segments before taxation	67,509	48,120
Unallocated amounts:		
- Other corporate expenses	(7,972)	(7,964)
Total return before taxation	59,537	40,156
Assets		
Total assets for reportable segments	918,581	911,792
Other unallocated amounts	(48,712)	(23,600)
Consolidated assets	869,869	888,192
Liabilities		
Total liabilities for reportable segments	673,084	679,309
Other unallocated amounts	(382,223)	(374,166)
Consolidated liabilities	290,861	305,143

	Reportable segment totals $'000	Unallocated amounts $'000	Consolidated totals $'000
Other material items 31 December 2018			
Finance income	963	(316)	647
Finance costs	3,997	5,712	9,709
Other material items 31 December 2017			
Finance income	853	(133)	720
Finance costs	4,253	4,699	8,952

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 $8.8 million (2017: $8.4 million) of the Group's total revenue.

25. COMMITMENTS

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

	Group	
	2018	2017
	$'000	$'000
Receivable:		
- within 1 year	51,436	44,949
- after 1 year but within 5 years	79,699	56,605
- after 5 years	90,589	104,671
	221,724	206,225

26. CAPITAL AND FINANCIAL RISK MANAGEMENT

Capital management

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

The Group is subject to the aggregate leverage limit as defined in Appendix 6 of the CIS Code ("Property Fund Appendix"). The Property Fund Appendix stipulates that the total borrowings and deferred payments (together, the "Aggregate Leverage") of a property fund should not exceed 45.0% (2017: 45.0%) of its Deposited Property. The Group's aggregate leverage limit did not exceed 45.0% (2017: 45.0%) during the year, and was 30.7% (2017: 32.2%) as at 31 December 2018.

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

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.

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

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.

In monitoring tenant credit risk, tenants are grouped according to their credit characteristics, including their geographical location, trade history with the Group, aging profile, maturity and existence of previous financial difficulties.

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.

The derivatives are entered into with bank and financial institution counterparties, which are rated Aa1, based on Moody's ratings.

Cash and fixed deposits are placed with banks and financial institutions which are regulated. Impairment on cash and cash equivalents has been measured on the 12-month expected loss basis and reflects the short maturities of the exposures. The Group considers that its cash and cash equivalents have low credit risk based on the external credit ratings of the counterparties. The amount of the allowance on cash and cash equivalents is negligible.

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.

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

Liquidity risk (cont'd)

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 2018					
Group					
Non-derivative financial liabilities					
Loans and borrowings	222,142	231,060	231,060	–	–
Trade and other payables	18,905	18,905	17,698	1,207	–
Security deposits	17,987	17,987	12,830	3,544	1,613
	259,034	267,952	261,588	4,751	1,613
Derivative financial liabilities					
Interest rate swaps used for hedging (net-settled)	74	74	74	–	–
	259,108	268,026	261,662	4,751	1,613
REIT					
Non-derivative financial liabilities					
Loans and borrowings	162,548	167,930	167,930	–	–
Trade and other payables	26,754	26,754	1,815	24,939	–
	189,302	194,684	169,745	24,939	–
Derivative financial liabilities					
Interest rate swaps used for hedging (net-settled)	74	74	74	–	–
	189,376	194,758	169,819	24,939	–
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	–

26. 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.

The maturity analyses show the contractual undiscounted cash flows of the Group's and the REIT's financial liabilities on the basis of their earliest possible contractual maturity. The cash inflows/(outflows) disclosed represent the contractual undiscounted cash flows relating to derivative financial liabilities held for risk management purposes and which are usually not closed out prior to contractual maturity. The disclosure shows net cash flow amounts for derivatives that are net cash-settled and gross cash inflow and outflow amounts for derivatives that have simultaneous gross cash settlement e.g. forward exchange contracts. Net-settled derivative financial assets are included in the maturity analyses as they are held to hedge the cash flow variability of the Group and the REIT's floating rate loans.

In addition, the Group maintains the following debt facilities and programme as at 31 December 2018:

Chinese Renminbi ("RMB") denominated facility:
- RMB 351 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
- $54.1 million credit 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 locking a portion of the Group's borrowings at fixed rates. As at 31 December 2018, the Group has entered into interest rate swaps with a total notional amount of $77.0 million (2017: nil) whereby the Group has agreed with counterparties to exchange, at specified intervals, the difference between floating rate and fixed rate interest amounts calculated by reference to the agreed notional principal amounts of the secured term loans.

Effects of a 100 basis point ("bp")* movement in interest rate at the reporting date would increase/(decrease) statement 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*

26. 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 2018				
Variable rate instruments	(2,209)	2,209	–	–
Interest rate swaps	41	(41)	378	(378)
Cash flow sensitivity (net)	(2,168)	2,168	378	(378)
31 December 2017				
Variable rate instruments	(2,415)	2,415	–	–
Cash flow sensitivity (net)	(2,415)	2,415	–	–

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.

The Group exposures to foreign currency are as follows:

	RMB $'000	Total $'000
Group		
31 December 2018		
Cash and cash equivalents	55,150	55,150
31 December 2017		
Cash and cash equivalents	70,655	70,655

The REIT is not exposed to significant foreign currency risks.

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

Foreign currency risk (cont'd)

Sensitivity analysis

A 10% strengthening of Singapore dollar against 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	REIT
	$'000	$'000
31 December 2018		
RMB	(5,515)	–
31 December 2017		
RMB	(7,066)	–

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.

Hedge accounting

Cash flow hedges

At 31 December 2018, the Group held the following instruments to hedge exposures to changes in interest rates.

		Maturity	
	1-6 months	6-12 months	More than one year
Group			
Interest rate risk			
Interest rate swaps			
Net exposure (in thousands of SGD)	–	77,000	–
Average fixed interest rate	–	1.96%	–

The amounts at the reporting date relating to items designated as hedged items were as follows.

	Change in value used for calculating hedge ineffective hedge ineffectiveness	Cash flow hedge reserve	Costs of hedging reserve	Balances remaining in the cash flow hedge reserve from hedging relationships for which hedge accounting is no longer applied
	$'000	$'000	$'000	$'000
Group				
Interest rate risk				
Variable-rate instruments	–	74	–	–

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

Hedge accounting (cont'd)

Cash flow hedges (cont'd)

The amounts relating to items designated as hedging instruments and hedge ineffectiveness were as follows.

	2018				During the period - 2018						
	Nominal amount	Carrying amount - assets	Carrying amount - liabilities	Line item in the statement of financial position where the hedging instrument is included	Changes in the value of the hedging instrument recognised in OCI	Hedge ineffectiveness recognised in profit or loss	Line item in profit or loss that includes hedge ineffectiveness	Costs of hedging recognised in OCI	Amount reclassified from hedging reserve to profit or loss	Amount reclassified from costs of hedging reserve to profit or loss	Line item in profit or loss affected by the reclassification
	$'000	$'000	$'000		$'000	$'000		$'000	$'000	$'000	
Interest rate risk											
Interest rate swaps	77,000	-	74	Derivative liabilities	74	-	-	-	-	-	-

The following table provides a reconciliation by risk category of components of equity and analysis of OCI items, net of tax, resulting from cash flow hedge accounting.

	Group	
	Hedging reserve	Cost of hedging reserve
	$'000	$'000
Balance at 1 January 2018	–	–
Cash flow hedges		
Change in fair value:		
Interest rate risk	74	–
Amount reclassified to profit or loss:		
Interest rate risk	–	–
Tax on movements on reserves during the year	–	–
Balance at 31 December 2018	74	–

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

Hedge accounting (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			
	Fair value hedging instruments $'000	Financial assets at amortised cost $'000	Other financial liabilities $'000	Total carrying amount $'000	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Group								
31 December 2018								
Financial assets not measured at fair value								
Trade and other receivables	–	1,467	–	1,467				
Cash and cash equivalents	–	55,590	–	55,590				
	–	57,057	–	57,057				
Financial liabilities measured at fair value								
Interest rate swaps used for hedging	74	–	–	74	74	–	–	74
Financial liabilities not measured at fair value								
Trade and other payables	–	–	18,905	18,905				
Security deposits	–	–	17,987	17,987	–	17,343	–	17,343
Loans and borrowings	–	–	222,142	222,142				
	–	–	259,034	259,034				

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

Hedge accounting (cont'd)

Accounting classifications and fair values

	Carrying amount				Fair value			
	Fair value hedging instruments	Financial assets at amortised cost	Other financial liabilities	Total carrying amount	Level 1	Level 2	Level 3	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
REIT								
31 December 2018								
Financial assets not measured at fair value								
Trade and other receivables	–	398	–	398				
Cash and cash equivalents	–	112	–	112				
	–	510	–	510				
Financial liabilities measured at fair value								
Interest rate swaps used for hedging	74	–	–	74	74	–	–	74
Financial liabilities not measured at fair value								
Trade and other payables	–	–	26,754	26,754	–	21,036	–	21,036
Loans and borrowings	–	–	162,548	162,548				
	–	–	189,302	189,302				

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

Hedge accounting (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 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				

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

Hedge accounting (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
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				

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.

Interest rate swaps

Market comparison technique: The fair values are based on broker quotes. Similar contracts are traded in an active market and the quotes reflect the actual transactions in similar instruments.

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.

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

Estimation of fair value (cont'd)

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 2018 plus an adequate constant credit spread, and are as follows:

	Group		REIT	
	2018	**2017**	**2018**	**2017**
	% p.a.	**% p.a.**	**% p.a.**	**% p.a.**
Security deposits	4.35	3.71	–	–
Trade and other payables	–	–	435	–

Transfer between Level 1 and 2

During the financial year ended 31 December 2018, there were no transfers between Level 1 and Level 2.

27. SUBSEQUENT EVENTS

On 23 February 2019, the Manager declared a distribution of 2.42 cents per Unit to Unitholders in respect of the period from 1 July 2018 to 31 December 2018.

The proposed acquisition of Hefei Changjiangxilu Mall from an individual unrelated to the BHG Group of Companies (Guok Chin Huat Samuel), which was approved by Unitholders on the Extraordinary General Meeting dated 18 December 2018 has yet to be completed as at the date of these financial statements. Independent valuers, Knight Frank Petty Limited and Cushman & Wakefield Limited were commissioned by the Trustee and REIT Manager respectively. Both valuers have conducted the valuation based on the discounted cash flow method and the income capitalisation method, and have valued Hefei Changjiangxilu Mall at RMB 481.5 million and RMB 490.0 million respectively. The Manager will be paid an acquisition fee of approximately RMB 2.5 million, which is 0.75% of the transaction amount, upon completion of the acquisition of the Changjiangxilu Mall. Such acquisition fee has not yet been paid out as the acquisition of the Changjiangxilu Mall has not been completed.

28. NEW STANDARDS AND INTERPRETATIONS NOT ADOPTED

A number of new standards and interpretations and amendments to standards are effective for annual periods beginning after 1 January 2018 and earlier application is permitted; however, the Group has not early adopted the new or amended standards and interpretations in preparing these financial statements.

The following new FRSs, interpretations and amendments to FRSs are effective for annual periods beginning after 1 January 2018:

Applicable to 2019 financial statements
- FRS 16 *Leases*
- INT FRS 123 *Uncertainty over Income Tax Treatments*
- *Long-term Interests in Associates and Joint Ventures* (Amendments to FRS 28)
- *Prepayment Features with Negative Compensation* (Amendments to FRS 109)
- *Previously Held Interest in a Joint Operation* (Amendments to FRS 103 and 111)
- *Income Tax Consequences of Payments on Financial Instruments Classified as Equity* (Amendments to FRS 12)
- *Borrowing Costs Eligible for Capitalisation* (Amendments to FRS 23)
- *Plan Amendment, Curtailment or Settlement* (Amendments to FRS 19)

28. NEW STANDARDS AND INTERPRETATIONS NOT ADOPTED (CONT'D)

Applicable to 2021 financial statements

- FRS 117 *Insurance Contracts*

Mandatory effective date deferred

- *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (Amendments to FRS 110 and FRS 28).

The Group has assessed the estimated impact that initial application of FRS 116 will have on the financial statements. The Group's assessment of FRS 116, which is expected to have a more significant impact on the Group, is as described below.

FRS 116

FRS 116 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use ("ROU") asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases. FRS 116 replaces existing lease accounting guidance, including FRS 17 *Leases*, 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*. The standard is effective for annual periods beginning on or after 1 January 2019, with early adoption permitted.

The Group and the REIT plan to apply FRS 116 initially on 1 January 2019, using the modified retrospective approach. Therefore, the cumulative effect of adopting FRS 116 will be recognised as an adjustment to the opening balance of retained earnings at 1 January 2019, with no restatement of comparative information. The Group and the REIT plan to apply the practical expedient to grandfather the definition of a lease on transition. This means that they will apply FRS 116 to all contracts entered into before 1 January 2019 and identified as leases in accordance with FRS 17 and INT FRS 104.

i. The Group and the REIT as lessee

No significant impact is expected for leases in which the Group and the REIT are a lessee.

ii. The Group as lessor

FRS 116 substantially carries forward the current existing lessor accounting requirements. Accordingly, the Group continues to classify its leases as operating leases or finance leases, and to account for these two types of leases using the existing operating lease and finance lease accounting models respectively.

No significant impact is expected for other leases in which the Group is a lessor.