

## FINANCIAL STATEMENTS

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## REPORT OF THE TRUSTEE

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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 REIT during the year covered by these financial statements, set out on pages 105 to 168 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**  
19 March 2020

## STATEMENT BY THE MANAGER

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In the opinion of the directors of BHG Retail Trust Management Pte. Ltd. (the “**Manager**”), the accompanying financial statements set out on pages 105 to 168 comprising the statements of financial position, statements of total return, distribution statements and statements of movements in unitholders’ (the “**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 2019, 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 dated 18 November 2015 (as amended by a first supplemental deed dated 26 March 2018 and a second supplemental deed dated 20 April 2018). 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**  
19 March 2020

# INDEPENDENT AUDITORS' REPORT

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## Unitholders

### BHG Retail REIT

(Constituted under a 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) 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 2019, the statement of total return, distribution statement, statement of movements in unitholders' (the "**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 105 to 168.

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 2019 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.

# INDEPENDENT AUDITORS' REPORT

| <b>Valuation of investment properties</b>  |  |
|--|--|
| Refer to Note 4 to the financial statements  |  |
| <i>The key audit matter</i>  | <i>How the matter was addressed in our audit</i>   |
| <p>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 S\$909.0 million (2018: S\$808.3 million) as at 31 December 2019.</p> <p>These investment properties are stated at their fair values based on independent external valuations.</p> <p>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 growth rates, term yields and reversionary rates and a change in the assumptions will have an impact on the valuation.</p> | <p>We evaluated the qualification and competence of the external valuer. We also read the terms of engagement of the valuer with the Group to determine whether there were any matters that might have affected their objectivity or limited the scope of their work.</p> <p>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 growth rates, term yields and reversionary rates used in the valuations by comparing them to available industry data, taking into consideration comparability and market factors.</p> <p>We also considered the adequacy of the disclosures in the financial statements.</p> |
|  | <i>Our findings</i>  |
|  | <p>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.</p> <p>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.</p>   |

# INDEPENDENT AUDITORS' REPORT

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## *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 Unitholdings (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.

## INDEPENDENT AUDITORS' REPORT

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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.

# INDEPENDENT AUDITORS' REPORT

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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**

19 March 2020

# STATEMENTS OF FINANCIAL POSITION

AS AT 31 DECEMBER 2019

|   | Note | Group           |                 | REIT            |                 |
|---|------|-----------------|-----------------|-----------------|-----------------|
|   |      | 2019<br>S\$'000 | 2018<br>S\$'000 | 2019<br>S\$'000 | 2018<br>S\$'000 |
| <b>Non-current assets</b>   |      |                 |                 |                 |                 |
| Investment properties   | 4    | 909,021         | 808,303         | -               | -               |
| Plant and equipment   | 5    | 678             | 630             | -               | -               |
| Interests in subsidiaries   | 6    | -               | -               | 591,535         | 524,512         |
| Trade and other receivables                                       | 7    | -               | 36              | -               | -               |
| Deferred tax assets   | 8    | 18              | 21              | -               | -               |
|   |      | <u>909,717</u>  | <u>808,990</u>  | <u>591,535</u>  | <u>524,512</u>  |
| <b>Current assets</b>   |      |                 |                 |                 |                 |
| Trade and other receivables                                       | 7    | 1,034           | 5,289           | 330             | 495             |
| Cash and cash equivalents   | 9    | 47,033          | 55,590          | 3,353           | 112             |
|   |      | <u>48,067</u>   | <u>60,879</u>   | <u>3,683</u>    | <u>607</u>      |
| <b>Total assets</b>   |      | <u>957,784</u>  | <u>869,869</u>  | <u>595,218</u>  | <u>525,119</u>  |
| <b>Non-current liabilities</b>                                    |      |                 |                 |                 |                 |
| Loans and borrowings  | 10   | 275,425         | -               | 226,890         | -               |
| Trade and other payables  | 11   | 1,731           | 1,207           | 43,549          | 24,939          |
| Security deposits   |      | 7,667           | 5,157           | -               | -               |
| Deferred tax liabilities  | 8    | 41,195          | 29,952          | -               | -               |
| Derivative liabilities  | 12   | 1,047           | -               | 1,047           | -               |
|   |      | <u>327,065</u>  | <u>36,316</u>   | <u>271,486</u>  | <u>24,939</u>   |
| <b>Current liabilities</b>  |      |                 |                 |                 |                 |
| Loans and borrowings  | 10   | 3,159           | 222,142         | 2,000           | 162,548         |
| Trade and other payables  | 11   | 24,942          | 17,698          | 4,810           | 1,815           |
| Security deposits   |      | 13,279          | 12,830          | -               | -               |
| Current tax liabilities   |      | 1,204           | 1,801           | -               | -               |
| Derivative liabilities  | 12   | -               | 74              | -               | 74              |
|   |      | <u>42,584</u>   | <u>254,545</u>  | <u>6,810</u>    | <u>164,437</u>  |
| <b>Total liabilities</b>  |      | <u>369,649</u>  | <u>290,861</u>  | <u>278,296</u>  | <u>189,376</u>  |
| <b>Net assets</b>   |      | <u>588,135</u>  | <u>579,008</u>  | <u>316,922</u>  | <u>335,743</u>  |
| <b>Represented by:</b>  |      |                 |                 |                 |                 |
| Unitholders' funds  | 13   | 422,517         | 410,423         | 316,922         | 335,743         |
| Non-controlling interests   | 14   | 165,618         | 168,585         | -               | -               |
|   |      | <u>588,135</u>  | <u>579,008</u>  | <u>316,922</u>  | <u>335,743</u>  |
| <b>Units in issue ('000)</b>                                      | 15   | <u>509,490</u>  | <u>504,677</u>  | <u>509,490</u>  | <u>504,677</u>  |
| <b>Net asset value per Unit attributable to Unitholders (S\$)</b> |      | <u>0.83</u>     | <u>0.81</u>     | <u>0.62</u>     | <u>0.67</u>     |

# STATEMENTS OF TOTAL RETURN

YEAR ENDED 31 DECEMBER 2019

|   | Note | Group           |                 | REIT            |                 |
|---|------|-----------------|-----------------|-----------------|-----------------|
|   |      | 2019<br>S\$'000 | 2018<br>S\$'000 | 2019<br>S\$'000 | 2018<br>S\$'000 |
| Gross rental income   |      | 71,238          | 62,530          | -               | -               |
| Dividend income   |      | -               | -               | 11,800          | 9,400           |
| Other income  |      | 7,820           | 7,139           | -               | -               |
| <b>Gross revenue</b>  |      | <b>79,058</b>   | <b>69,669</b>   | <b>11,800</b>   | <b>9,400</b>    |
| Business tax  |      | (495)           | (395)           | -               | -               |
| Property-related tax  |      | (6,965)         | (5,983)         | -               | -               |
| Property management fees and reimbursables  |      | (2,910)         | (2,419)         | -               | -               |
| Other property operating expenses   | 17   | (18,212)        | (15,225)        | -               | -               |
| <b>Total property operating expenses</b>  |      | <b>(28,582)</b> | <b>(24,022)</b> | <b>-</b>        | <b>-</b>        |
| <b>Net property income</b>  |      | <b>50,476</b>   | <b>45,647</b>   | <b>11,800</b>   | <b>9,400</b>    |
| Audit fees  |      | (322)           | (301)           | (152)           | (145)           |
| Manager's management fees   |      |                 |                 |                 |                 |
| - Base fee  |      | (1,862)         | (1,971)         | (1,862)         | (1,971)         |
| - Acquisition fee   |      | -               | -               | (489)           | -               |
| Trustee's fees  |      | (148)           | (135)           | (148)           | (135)           |
| Valuation fee   |      | (15)            | (53)            | (15)            | (53)            |
| Other income (non-operating)  |      | 482             | 309             | -               | -               |
| Other operating expenses  | 18   | (1,444)         | (634)           | (1,136)         | (386)           |
| Finance income  |      | 422             | 647             | -               | -               |
| Finance costs   |      | (14,815)        | (9,709)         | (11,861)        | (6,030)         |
| Net finance costs   | 19   | (14,393)        | (9,062)         | (11,861)        | (6,030)         |
| <b>Total return before change in fair value of investment properties and unrealised foreign exchange gain</b> |      | <b>32,774</b>   | <b>33,800</b>   | <b>(3,863)</b>  | <b>680</b>      |
| Change in fair value of investment properties   | 4    | 48,856          | 25,664          | -               | -               |
| Foreign exchange gain - unrealised  |      | 1,758           | 73              | 963             | 748             |
| <b>Total return for the year before taxation</b>  |      | <b>83,388</b>   | <b>59,537</b>   | <b>(2,900)</b>  | <b>1,428</b>    |
| Taxation  | 20   | (20,788)        | (13,889)        | (73)            | -               |
| <b>Total return for the year after taxation</b>   |      | <b>62,600</b>   | <b>45,648</b>   | <b>(2,973)</b>  | <b>1,428</b>    |
| <b>Attributable to:</b>   |      |                 |                 |                 |                 |
| Unitholders   |      | 48,006          | 31,157          | (2,973)         | 1,428           |
| Non-controlling interests   | 14   | 14,594          | 14,491          | -               | -               |
| <b>Total return for the year after taxation</b>   |      | <b>62,600</b>   | <b>45,648</b>   | <b>(2,973)</b>  | <b>1,428</b>    |
| <b>Earnings per Unit (cents)</b>  | 21   |                 |                 |                 |                 |
| - Basic   |      | 9.47            | 6.20            |                 |                 |
| - Diluted   |      | 9.42            | 6.17            |                 |                 |

# DISTRIBUTION STATEMENTS

YEAR ENDED 31 DECEMBER 2019

|   | Note | Group           |                 | REIT            |                 |
|---|------|-----------------|-----------------|-----------------|-----------------|
|   |      | 2019<br>S\$'000 | 2018<br>S\$'000 | 2019<br>S\$'000 | 2018<br>S\$'000 |
| <b>Amount available for distribution to Unitholders at beginning of the year</b>      |      | 9,453           | 10,126          | 9,453           | 10,126          |
| Total return for the year attributable to Unitholders                                 |      | 48,006          | 31,157          | (2,973)         | 1,428           |
| Distribution adjustments  | A    | (29,390)        | (11,451)        | 21,589          | 18,278          |
| Income for the year available for distribution to Unitholders                         |      | 18,616          | 19,706          | 18,616          | 19,706          |
| Amount retained <sup>(1)</sup>  |      | (1,862)         | -               | (1,862)         | -               |
| Income for the year to be distributed to Unitholders                                  |      | 16,754          | 19,706          | 16,754          | 19,706          |
| <b>Distribution to Unitholders during the year:</b>                                   |      |                 |                 |                 |                 |
| - 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)        |
| - Distribution of 2.42 cents per Unit for period from 1 July 2018 to 31 December 2018 |      | (9,232)         | -               | (9,232)         | -               |
| - Distribution of 2.08 cents per Unit for period from 1 January 2019 to 30 June 2019  |      | (9,018)         | -               | (9,018)         | -               |
|   |      | (18,250)        | (20,379)        | (18,250)        | (20,379)        |
| <b>Amount available for distribution to Unitholders at end of the year</b>            |      | 7,957           | 9,453           | 7,957           | 9,453           |
| <b>Distribution per unit (cents) <sup>(2)</sup></b>                                   |      | 3.87            | 5.16            |                 |                 |

<sup>(1)</sup> For the year ended 31 December 2019, approximately S\$1.9 million of the amount available for distribution has been retained in anticipation of higher operational expenses and working capital requirements of the REIT's enlarged portfolio.

<sup>(2)</sup> The distribution per unit relates to the distributions in respect of the relevant financial year.

The distribution relating to 1 July 2019 to 31 December 2019 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 2019 and 2018 amounted to approximately S\$3.6 million and S\$5.3 million respectively.

# DISTRIBUTION STATEMENTS

YEAR ENDED 31 DECEMBER 2019

## Note A – Distribution adjustments

|   | Group           |                 | REIT            |                 |
|---|-----------------|-----------------|-----------------|-----------------|
|   | 2019<br>S\$'000 | 2018<br>S\$'000 | 2019<br>S\$'000 | 2018<br>S\$'000 |
| <b>Distribution adjustment items:</b>                                   |                 |                 |                 |                 |
| – Amortisation of debt establishment costs                              | 2,168           | 376             | 1,878           | 152             |
| – Change in fair value of investment properties <sup>(1)</sup>          | (41,340)        | (17,510)        | –               | –               |
| – Deferred taxation <sup>(1)</sup>                                      | 10,277          | 4,413           | –               | –               |
| – Manager’s management fees paid/payable in Units                       | 1,862           | 1,971           | 2,351           | 1,971           |
| – Net income of subsidiaries not distributed to the REIT <sup>(1)</sup> | –               | –               | 18,323          | 16,904          |
| – Property Manager’s management fees paid/payable in Units              | 1,024           | 757             | –               | –               |
| – Transfer to statutory reserve   | (1,722)         | (1,492)         | –               | –               |
| – Other adjustments <sup>(1)</sup>                                      | (1,659)         | 34              | (963)           | (749)           |
| <b>Net effect of distribution adjustments</b>                           | <b>(29,390)</b> | <b>(11,451)</b> | <b>21,589</b>   | <b>18,278</b>   |

(1) Excludes share attributable to non-controlling interests

# STATEMENTS OF MOVEMENTS IN UNITHOLDERS' FUNDS

YEAR ENDED 31 DECEMBER 2019

|   | Group           |                 | REIT            |                 |
|---|-----------------|-----------------|-----------------|-----------------|
|   | 2019<br>S\$'000 | 2018<br>S\$'000 | 2019<br>S\$'000 | 2018<br>S\$'000 |
| <b>Unitholders' funds as at beginning of the year</b>   | 410,423         | 416,454         | 335,743         | 352,040         |
| <b>Operations</b>   |                 |                 |                 |                 |
| Total return for the year after taxation attributable to Unitholders  | 48,006          | 31,157          | (2,973)         | 1,428           |
| Transfer to statutory reserve   | (1,722)         | (1,492)         | -               | -               |
| <b>Net increase/(decrease) in net assets resulting from operations</b>  | 46,284          | 29,665          | (2,973)         | 1,428           |
| <b>Hedging reserve</b>  |                 |                 |                 |                 |
| Effective portion of changes in fair value of cash flow hedges  | (973)           | (74)            | (973)           | (74)            |
| <b>Foreign currency translation reserve</b>   |                 |                 |                 |                 |
| Translation differences from financial statements of foreign operations   | (20,064)        | (19,463)        | -               | -               |
| <b>Statutory reserve</b>  |                 |                 |                 |                 |
| Transfer from operations  | 1,722           | 1,492           | -               | -               |
| <b>Unitholders' transactions</b>  |                 |                 |                 |                 |
| Creation of Units paid/payable to manager   |                 |                 |                 |                 |
| - Units issued and to be issued as satisfaction of the portion of Manager's management fees payable in Units          | 2,351           | 1,971           | 2,351           | 1,971           |
| - Units issued and to be issued as satisfaction of the portion of Property Manager's management fees payable in Units | 1,024           | 757             | 1,024           | 757             |
| Distributions to Unitholders  | (18,250)        | (20,379)        | (18,250)        | (20,379)        |
|   | (14,875)        | (17,651)        | (14,875)        | (17,651)        |
| <b>Unitholders' funds as at end of the year</b>   | 422,517         | 410,423         | 316,922         | 335,743         |

# PORTFOLIO STATEMENT

AS AT 31 DECEMBER 2019

| Group | Description of leasehold property                    | Location  | Term of lease (years) | Lease expiry | Valuation as at |                 | Valuation as at |                 | Percentage of Unitholders' funds |           |
|-------|--|---|-----------------------|--------------|-----------------|-----------------|-----------------|-----------------|----------------------------------|-----------|
|       |  |   |                       |              | 2019<br>RMB'000 | 2018<br>RMB'000 | 2019<br>S\$'000 | 2018<br>S\$'000 | 2019<br>%                        | 2018<br>% |
|       | Beijing Wanliu                                       | No.2 Bagou Road, Haidian District, Beijing                    | 30                    | 2044         | 2,502,000       | 2,394,000       | 483,189         | 474,156         | 114                              | 115       |
|       | Chengdu Konggang                                     | No. 166 Jinhua Road second section, Shuangliu County, Chengdu | 32                    | 2047         | 662,000         | 640,100         | 127,846         | 126,778         | 30                               | 31        |
|       | Hefei Mengchenglu                                    | No.99 Mengcheng Road, Luyang District, Hefei                  | 30                    | 2044         | 603,000         | 605,000         | 116,452         | 119,826         | 28                               | 29        |
|       | Xining Huayuan                                       | Nos.16-19 Shipo street, Chengzhong District, Xining           | 34                    | 2048         | 280,000         | 280,000         | 54,074          | 55,457          | 13                               | 13        |
|       | Dalian Jinsanjiao                                    | No.18 Huadong Road, Ganjingzi District, Dalian                | 33                    | 2042         | 168,000         | 162,000         | 32,444          | 32,086          | 8                                | 8         |
|       | Hefei Changjiangxilu                                 | No. 639 Changjiangxilu Road, Shushan District, Hefei          | 30                    | 2043         | 492,000         | -               | 95,016          | -               | 22                               | -         |
|       | Investment properties, at valuation                  |   |                       |              |                 |                 | 909,021         | 808,303         | 215                              | 196       |
|       | Other assets and liabilities (net)                   |   |                       |              |                 |                 | (320,886)       | (229,295)       | (75)                             | (56)      |
|       | Net assets   |   |                       |              |                 |                 | 588,135         | 579,008         | 140                              | 140       |
|       | Net assets attributable to non-controlling interests |   |                       |              |                 |                 | (165,618)       | (168,585)       | (40)                             | (40)      |
|       | Net assets attributable to Unitholders               |   |                       |              |                 |                 | 422,517         | 410,423         | 100                              | 100       |

# STATEMENT OF CASH FLOWS

YEAR ENDED 31 DECEMBER 2019

|  | Note | Group<br>2019<br>S\$'000 | 2018<br>S\$'000 |
|--|------|--------------------------|-----------------|
| <b>Cash flows from operating activities</b>              |      |                          |                 |
| Total return for the year before taxation                |      | 83,388                   | 59,537          |
| Adjustments for:   |      |                          |                 |
| Finance income   |      | (422)                    | (647)           |
| Finance costs  |      | 14,815                   | 9,709           |
| Loss on disposal of plant and equipment                  |      | 8                        | 2               |
| Depreciation of plant and equipment                      |      | 111                      | 125             |
| Manager's management fees paid/payable in Units          | (i)  | 1,862                    | 1,971           |
| Property Manager's management fees paid/payable in Units | (ii) | 1,024                    | 757             |
| Change in fair value of investment properties            |      | (48,856)                 | (25,664)        |
| Foreign exchange gain – unrealised                       |      | (1,758)                  | (73)            |
| <b>Operating income before working capital changes</b>   |      | <u>50,172</u>            | <u>45,717</u>   |
| <b>Changes in:</b>                                       |      |                          |                 |
| Trade and other receivables                              |      | (997)                    | (323)           |
| Trade and other payables                                 |      | 3,914                    | (38)            |
| <b>Cash generated from operating activities</b>          |      | <u>53,089</u>            | <u>45,356</u>   |
| Tax paid   |      | (9,488)                  | (7,400)         |
| <b>Net cash generated from operating activities</b>      |      | <u>43,601</u>            | <u>37,956</u>   |
| <b>Cash flows from investing activities</b>              |      |                          |                 |
| Acquisition of subsidiaries, net of cash acquired        | 26   | (63,055)                 | –               |
| Capital expenditure on investment properties             |      | (10,876)                 | (1,127)         |
| Purchase of plant and equipment                          |      | (60)                     | (92)            |
| Interest received  |      | 422                      | 647             |
| <b>Net cash used in investing activities</b>             |      | <u>(73,569)</u>          | <u>(572)</u>    |
| <b>Cash flows from financing activities</b>              |      |                          |                 |
| Distribution to Unitholders                              |      | (18,250)                 | (20,379)        |
| Dividend paid to non-controlling interests               |      | (4,866)                  | (4,120)         |
| Decrease in restricted cash                              |      | 11,435                   | 13,693          |
| Proceeds from borrowings                                 |      | 84,900                   | 37,170          |
| Repayment of borrowings                                  |      | (29,084)                 | (54,379)        |
| Net settlement of derivative contracts                   |      | 53                       | (108)           |
| Interest paid  |      | (10,173)                 | (9,246)         |
| <b>Net cash from/(used in) financing activities</b>      |      | <u>34,015</u>            | <u>(37,369)</u> |

# STATEMENT OF CASH FLOWS

YEAR ENDED 31 DECEMBER 2019

|  | Note | Group<br>2019<br>S\$'000 | 2018<br>S\$'000 |
|--|------|--------------------------|-----------------|
| <b>Increase in cash and cash equivalents</b>             |      | 4,047                    | 15              |
| Cash and cash equivalents at 1 January                   |      | 41,191                   | 43,352          |
| Effect of foreign exchange rate changes on cash balances |      | (1,135)                  | (2,176)         |
| <b>Cash and cash equivalents at 31 December</b>          | 9    | 44,103                   | 41,191          |

**Notes:**

**Significant non-cash transactions**

- (i) The Manager's management fees for the year was S\$2,351,000 (2018: S\$1,971,000), of which S\$489,000 (2018: Nil) was related to the acquisition of Hefei Changjiangxilu Mall and capitalised as part of the cost of investment property. S\$1,912,000 (2018: S\$1,551,000) was paid during the year through the issuance of 2,709,000 (2018: 2,118,000) Units. The remaining S\$439,000 (2018: S\$420,000) will be paid through the issuance of 638,000 (2018: 585,000) Units subsequent to the year end.
- (ii) The Property Manager's management fees for the year was S\$1,024,000 (2018: S\$757,000). S\$753,000 (2018: S\$579,000) was paid during the year through the issuance of 1,072,000 (2018: 791,000) Units. The remaining S\$271,000 (2018: S\$178,000) will be paid through the issuance of 394,000 (2018: 249,000) Units subsequent to the year end.

# NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

These notes form an integral part of the financial statements.

The financial statements were authorised for issue by the Manager and the Trustee on 19 March 2020.

## 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 S\$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).

# NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

## 1. GENERAL (CONT'D)

### (iii) Property management fees

Under the property management agreement in respect of each property, the property manager ("Property Manager") will provide lease management services, property 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").

This is the first set of the Group's annual financial statements in which FRS 116 *Leases* has been applied. The related changes to significant accounting policies are described in note 2.5.

### 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.

# NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

## 2. BASIS OF PREPARATION (CONT'D)

### 2.4 Use of estimates and judgements

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

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

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year includes the valuation of investment properties under Note 4 and valuation of financial instruments under Note 27.

#### Measurement of fair values

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

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

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

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

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

Further information about the assumptions made in measuring fair values is included in the Note 4 – investment properties and Note 27 – capital and financial risk management.

# NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

## 2. BASIS OF PREPARATION (CONT'D)

### 2.5 Changes in accounting policies

#### New standards and amendments

The Group has applied the following FRS, amendments to and interpretations of FRS for the first time for the annual period beginning on 1 January 2019 for the first time.

- FRS 116 *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)

The adoption of these FRS 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 is primarily accounted for as an acquisition 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.

# NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### 3.1 Basis of consolidation (cont'd)

(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.

(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.

# NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### 3.2 Foreign currency (cont'd)

(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.

(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.

# NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### 3.3 Financial instruments (cont'd)

- (ii) Classification and subsequent measurement

#### ***Non-derivative financial assets***

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.

#### ***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.

# NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### 3.3 Financial instruments (cont'd)

#### (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.

#### (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.

# NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### 3.3 Financial instruments (cont'd)

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

#### *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 the 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 the statement of total return.

#### **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.

# NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### 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.

# NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### 3.5 Plant and equipment (cont'd)

(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.

(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

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.

# NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### 3.6 Impairment (cont'd)

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

#### *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.

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.

# NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### 3.6 Impairment (cont'd)

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

##### *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.

#### (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.

# NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### 3.6 Impairment (cont'd)

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

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

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.

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.

# NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### 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.

(ii) Dividend income

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

### 3.11 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.

### 3.12 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.

# NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### 3.13 Leases

The Group has applied FRS 116 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under FRS 17 and INT FRS 104. The details of accounting policies under FRS 17 and INT FRS 104 are disclosed separately.

#### Policy applicable from 1 January 2019

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group uses the definition of a lease in FRS 116.

This policy is applied to contracts entered into, on or after 1 January 2019.

(i) As a lessee

At commencement or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices. However, for the leases of property the Group has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Group by the end of the lease term or the cost of the right-of-use asset reflects that the Group will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

# NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### 3.13 Leases (cont'd)

(ii) As a lessor

At inception or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices.

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, the Group makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Group considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

The Group recognises lease payments received from investment property under operating leases as income on a straight-line basis over the lease term as part of 'revenue'.

Generally, the accounting policies applicable to the Group as a lessor in the comparative period were not different from FRS 116.

#### Leases – Policy applicable before 1 January 2019

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.

### 3.14 Taxation

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

Current tax is the expected tax payable 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.

# NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

## 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. Where investment properties are carried at their fair value in accordance with the accounting policy set out in note 3.4, the amount of deferred tax recognised is measured using the tax rates that would apply on the sale of those assets at their carrying value at the end of the reporting period unless the property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the property over time, rather than through sale. In all other cases, the amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets or liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

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.

# NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### 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    |          |
|-----------------------------|----------|----------|
|                             | 2019     | 2018     |
|                             | S\$'000  | S\$'000  |
| At beginning of the year    | 808,303  | 811,116  |
| Acquisition of subsidiaries | 64,876   | -        |
| Additions during the year   | 10,876   | 1,127    |
|                             | 884,055  | 812,243  |
| Changes in fair value       | 48,856   | 25,664   |
| Translation differences     | (23,890) | (29,604) |
| At end of the year          | 909,021  | 808,303  |

Investment properties comprise retail properties that are held mainly for use by tenants under operating leases. (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 S\$3.7 million (2018: S\$4.6 million).

# NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

## 4. INVESTMENT PROPERTIES (CONT'D)

### Fair value

Investment properties are stated at fair value based on valuation as at 31 December 2019 performed by independent professional valuers, Jones Lang LaSalle, 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 terminal growth rates, term yield 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.

### Level 3 fair values

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

| <b>Valuation methods</b>       | <b>Significant unobservable inputs</b>   | <b>Inter-relationship between key unobservable inputs and fair value measurement</b> |
|--------------------------------|--|--|
| Discounted cash flows approach | Discount rates<br>from 7.5% to 8.0%<br>(2018: 7.0% to 8.0%) per annum  | The fair value increases as discount rate decreases.                                 |
|                                | Terminal growth rates 3.0%<br>(2018: 2.5% to 4.0%)   | The fair value increases as terminal growth rate increases.                          |
| Income capitalisation approach | Term yield<br>from 4.0% to 5.5%<br>(2018: 4.5% to 6.0%)<br>Reversionary rates<br>from 4.5% to 6.0%<br>(2018: 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).

# NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

## 5. PLANT AND EQUIPMENT

|   | Plant and<br>machinery<br>S\$'000 | Motor<br>vehicles<br>S\$'000 | Furniture,<br>fittings and<br>equipment<br>S\$'000 | Total<br>S\$'000 |
|---|-----------------------------------|------------------------------|--|------------------|
| <b>Group</b>                            |                                   |                              |  |                  |
| <b>Cost</b>                             |                                   |                              |  |                  |
| At 1 January 2018                       | 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            |
| Acquisition of subsidiaries             | -                                 | 51                           | 75   | 126              |
| Additions during the year               | 28                                | -                            | 32   | 60               |
| Disposal/written off                    | -                                 | (44)                         | (1)  | (45)             |
| Translation difference on consolidation | (92)                              | (9)                          | (96)   | (197)            |
| At 31 December 2019                     | 3,584                             | 255                          | 3,295  | 7,134            |
| <b>Accumulated depreciation</b>         |                                   |                              |  |                  |
| At 1 January 2018                       | 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            |
| Charge for the year                     | 2                                 | 6                            | 103  | 111              |
| Disposal/written off                    | -                                 | (36)                         | (1)  | (37)             |
| Translation difference on consolidation | (86)                              | (8)                          | (84)   | (178)            |
| At 31 December 2019                     | 3,379                             | 207                          | 2,870  | 6,456            |
| <b>Carrying amounts</b>                 |                                   |                              |  |                  |
| At 1 January 2018                       | 193                               | 13                           | 484  | 690              |
| At 31 December 2018                     | 185                               | 12                           | 433  | 630              |
| At 31 December 2019                     | 205                               | 48                           | 425  | 678              |

# NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

## 6. INTERESTS IN SUBSIDIARIES

|   | REIT            |                 |
|---|-----------------|-----------------|
|   | 2019<br>S\$'000 | 2018<br>S\$'000 |
| Equity investment, at cost              | 3,925           | 2,231           |
| Non-trade amounts due from subsidiaries | 587,610         | 522,281         |
|   | 591,535         | 524,512         |

(a) Details of the subsidiaries are as follows:

| Name of subsidiaries  | Place of incorporation/<br>business | Effective equity held by the Group |           |
|---|-------------------------------------|------------------------------------|-----------|
|   |                                     | 2019<br>%                          | 2018<br>% |
| <b>Held by the REIT</b>   |                                     |                                    |           |
| 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       |
| Fuchsia (China) Mall Pte. Ltd.*                                     | Singapore                           | 100                                | -         |
| <b>Held through subsidiaries</b>                                    |                                     |                                    |           |
| 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       |
| Hefei Hualian Ruicheng Shopping Plaza Commercial Operation Ltd.**   | People's Republic of China          | 100                                | -         |

\* Audited by KPMG LLP Singapore

\*\* Audited by KPMG China

# NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

## 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            |                 |
|-----------------------------|-----------------|-----------------|-----------------|-----------------|
|                             | 2019<br>S\$'000 | 2018<br>S\$'000 | 2019<br>S\$'000 | 2018<br>S\$'000 |
| Trade receivables           | 108             | 37              | -               | -               |
| Other receivables           | 877             | 1,512           | 303             | 398             |
| Impairment losses           | (55)            | (82)            | -               | -               |
|                             | 822             | 1,430           | 303             | 398             |
| Trade and other receivables | 930             | 1,467           | 303             | 398             |
| Prepayments                 | 104             | 3,858           | 27              | 97              |
|                             | 1,034           | 5,325           | 330             | 495             |
| Current                     | 1,034           | 5,289           | 330             | 495             |
| Non-current                 | -               | 36              | -               | -               |
|                             | 1,034           | 5,325           | 330             | 495             |

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            |                 |
|-----------|-----------------|-----------------|-----------------|-----------------|
|           | 2019<br>S\$'000 | 2018<br>S\$'000 | 2019<br>S\$'000 | 2018<br>S\$'000 |
| Beijing   | 218             | 304             | -               | -               |
| Chengdu   | 237             | 119             | -               | -               |
| Hefei     | 112             | 643             | -               | -               |
| Qinghai   | -               | 1               | -               | -               |
| Dalian    | 1               | 2               | -               | -               |
| Singapore | 362             | 398             | 303             | 398             |
|           | 930             | 1,467           | 303             | 398             |

# NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

## 7. TRADE AND OTHER RECEIVABLES (CONT'D)

*Expected credit loss assessment*

The following table provides information about the exposure to credit risk and ECL's for trade and other receivables as at 31 December 2019:

|                       | <b>Gross<br/>carrying<br/>amount<br/>S\$'000</b> | <b>Group<br/>Impairment<br/>loss<br/>allowance<br/>S\$'000</b> | <b>Credit<br/>impaired</b> |
|-----------------------|--|--|----------------------------|
| <b>2019</b>           |  |  |                            |
| Not past due          | 511  | -  | No                         |
| Past due 1 – 30 days  | 13   | -  | No                         |
| Past due 31 – 60 days | 10   | -  | No                         |
| Past due 61 – 90 days | 4  | -  | No                         |
| More than 90 days due | 447  | (55)   | Yes                        |
|                       | <u>985</u>                                       | <u>(55)</u>  |                            |
| <b>2018</b>           |  |  |                            |
| 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                        |
|                       | <u>1,549</u>                                     | <u>(82)</u>  |                            |

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

*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:

|                             | <b>Group<br/>Individually<br/>Impaired<br/>2019<br/>S\$'000</b> | <b>Group<br/>Individually<br/>Impaired<br/>2018<br/>S\$'000</b> |
|-----------------------------|---|---|
| At 1 January per FRS 109    | (82)  | (89)  |
| Impairment losses recovered | 27  | 7   |
| At 31 December per FRS 109  | <u>(55)</u>   | <u>(82)</u>   |

Impairment allowance is recognised for other receivables that are individually determined to be impaired at the reporting date due to debtors that are in significant financial difficulties.

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).

# NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

## 8. DEFERRED TAX ASSETS/(LIABILITIES)

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

| Group  | At<br>1 January<br>2018<br>S\$'000 | Recognised<br>in<br>statements<br>of total<br>return<br>(Note 20)<br>S\$'000 | Translation<br>difference<br>S\$'000 | At<br>31<br>December<br>2018<br>S\$'000 | Recognised<br>in<br>statements<br>of total<br>return<br>(Note 20)<br>S\$'000 | Acquisition<br>of<br>subsidiary<br>S\$'000 | Translation<br>difference<br>S\$'000 | At<br>31<br>December<br>2019<br>S\$'000 |
|--|------------------------------------|--|--------------------------------------|---|--|--|--------------------------------------|---|
| <b>Deferred tax assets</b>                               |                                    |  |                                      |   |  |  |                                      |   |
| Allowance for doubtful receivables and unutilised losses | 22                                 | -  | (1)                                  | 21                                      | (7)  | 6  | (2)                                  | 18                                      |
| <b>Deferred tax liabilities</b>                          |                                    |  |                                      |   |  |  |                                      |   |
| Investment properties                                    | (23,329)                           | (6,897)  | 946                                  | (29,280)                                | (12,047)   | -  | 889                                  | (40,438)                                |
| Tax on unrepatriated profits                             | (1,075)                            | 445  | (42)                                 | (672)                                   | (103)  | -  | 18                                   | (757)                                   |
|  | (24,404)                           | (6,452)  | 904                                  | (29,952)                                | (12,150)   | -  | 907                                  | (41,195)                                |

## 9. CASH AND CASH EQUIVALENTS

|  | Group           |                 | REIT            |                 |
|--|-----------------|-----------------|-----------------|-----------------|
|  | 2019<br>S\$'000 | 2018<br>S\$'000 | 2019<br>S\$'000 | 2018<br>S\$'000 |
| Cash at banks and in hand                            | 47,033          | 55,590          | 3,353           | 112             |
| Restricted cash                                      | (2,930)         | (14,399)        | (2,930)         | -               |
| Cash and cash equivalents in statement of cash flows | 44,103          | 41,191          | 423             | 112             |

## 10. LOANS AND BORROWINGS

|                                     | Group           |                 | REIT            |                 |
|-------------------------------------|-----------------|-----------------|-----------------|-----------------|
|                                     | 2019<br>S\$'000 | 2018<br>S\$'000 | 2019<br>S\$'000 | 2018<br>S\$'000 |
| Unsecured loan                      | -               | 1,247           | -               | 1,247           |
| Secured loans                       | 284,228         | 221,274         | 234,403         | 161,460         |
| Less: Unamortised transaction costs | (5,644)         | (379)           | (5,513)         | (159)           |
|                                     | 278,584         | 222,142         | 228,890         | 162,548         |
| Current                             | 3,159           | 222,142         | 2,000           | 162,548         |
| Non-current                         | 275,425         | -               | 226,890         | -               |
|                                     | 278,584         | 222,142         | 228,890         | 162,548         |

# NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

## 10. LOANS AND BORROWINGS (CONT'D)

### Terms and debt repayment schedule

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

|                                | Nominal<br>interest rate<br>per annum<br>% | Year of<br>maturity | Face<br>value<br>S\$'000 | Carrying<br>amount<br>S\$'000 |
|--------------------------------|--|---------------------|--------------------------|-------------------------------|
| <b>2019</b>                    |  |                     |                          |                               |
| <b>Group</b>                   |  |                     |                          |                               |
| SGD secured floating rate loan | 3.84-4.20                                  | 2022                | 174,478                  | 170,380                       |
| USD secured floating rate loan | 4.15-4.87                                  | 2022                | 57,925                   | 56,510                        |
| SGD secured floating rate loan | 4.37-4.64                                  | 2020                | 2,000                    | 2,000                         |
| RMB secured floating rate loan | 5.08-5.70                                  | 2020-2022           | 38,335                   | 38,335                        |
| RMB secured floating rate loan | 5.08-5.70                                  | 2020-2022           | 11,490                   | 11,359                        |
|                                |  |                     | 284,228                  | 278,584                       |
| <b>REIT</b>                    |  |                     |                          |                               |
| SGD secured floating rate loan | 3.84-4.20                                  | 2022                | 174,478                  | 170,380                       |
| USD secured floating rate loan | 4.15-4.87                                  | 2022                | 57,925                   | 56,510                        |
| SGD secured floating rate loan | 4.37-4.64                                  | 2020                | 2,000                    | 2,000                         |
|                                |  |                     | 234,403                  | 228,890                       |
| <b>2018</b>                    |  |                     |                          |                               |
| <b>Group</b>                   |  |                     |                          |                               |
| 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                       |
| <b>REIT</b>                    |  |                     |                          |                               |
| 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                       |

# NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

## 10. LOANS AND BORROWINGS (CONT'D)

### Facilities and securities

The Group has put in place two onshore secured borrowing facilities of RMB 241.0 million and RMB 61.0 million, and an offshore secured borrowing facility of S\$240.0 million. As at 31 December 2019, the RMB 241.0 million facility and RMB 61.0 million facility were fully drawn down, while S\$232.7 million was drawn down from the S\$240.0 million offshore facility. During 2019, the Group had repaid RMB 3.0 million (2018: RMB 3.0 million) of each of the onshore facilities, in accordance with the facility agreements, and RMB 41.0 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 six (2018: 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 five (2018: 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 S\$6.4 million (2018: S\$14.0 million) and from other secured bank facilities an amount totalling Nil (2018: S\$23.2 million). The REIT had repaid S\$20.4 million (2018: S\$35.9 million) of these facilities during the year. The secured facilities outstanding as of 2018 year end were obtained mainly for the purpose of financing the payment of distribution and interest payment of the borrowings. The credit facilities were secured by the restricted cash from the five subsidiaries in China.

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

|  | Loans and<br>borrowings<br>S\$'000 | Interest<br>payable<br>S\$'000 | Total<br>S\$'000 |
|--|------------------------------------|--------------------------------|------------------|
| <b>Balance at 1 January 2019</b>             | 222,142                            | 1,305                          | 223,447          |
| <b>Changes from financing cash flows</b>     |                                    |                                |                  |
| Proceeds from borrowings                     | 84,900                             | -                              | 84,900           |
| Repayment of borrowings                      | (29,084)                           | -                              | (29,084)         |
| Interest paid                                | -                                  | (10,173)                       | (10,173)         |
|  | 55,816                             | (10,173)                       | 45,643           |
| <b>Non-cash changes</b>                      |                                    |                                |                  |
| Effects of changes in foreign exchange rates | (1,542)                            | (1,136)                        | (2,678)          |
| Amortisation of borrowing costs              | 2,168                              | -                              | 2,168            |
| Interest expense                             | -                                  | 12,647                         | 12,647           |
|  | 626                                | 11,511                         | 12,137           |
| <b>Balance at 31 December 2019</b>           | 278,584                            | 2,643                          | 281,227          |

# NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

## 10. LOANS AND BORROWINGS (CONT'D)

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

|  | Loans and<br>borrowings<br>S\$'000 | Interest<br>payable<br>S\$'000 | Total<br>S\$'000 |
|--|------------------------------------|--------------------------------|------------------|
| <b>Balance at 1 January 2018</b>             | 241,472                            | 1,039                          | 242,511          |
| <b>Changes from financing cash flows</b>     |                                    |                                |                  |
| 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)         |
| <b>Non-cash changes</b>                      |                                    |                                |                  |
| 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            |
| <b>Balance at 31 December 2018</b>           | 222,142                            | 1,305                          | 223,447          |

## 11. TRADE AND OTHER PAYABLES

|                                    | Group           |                 | REIT            |                 |
|------------------------------------|-----------------|-----------------|-----------------|-----------------|
|                                    | 2019<br>S\$'000 | 2018<br>S\$'000 | 2019<br>S\$'000 | 2018<br>S\$'000 |
| Trade payables                     | 8,392           | 8,148           | -               | -               |
| Interest payable                   | 2,643           | 1,305           | 2,651           | 864             |
| Other payables                     | 9,133           | 4,979           | 33              | 2               |
| Accrued operating expenses         | 2,773           | 2,740           | 566             | 908             |
| Loan from subsidiaries             | -               | -               | 43,549          | 24,939          |
| Amount owing to subsidiaries       | -               | -               | 1,560           | 41              |
| Deposits and advances from tenants | 3,732           | 1,733           | -               | -               |
|                                    | 26,673          | 18,905          | 48,359          | 26,754          |
| Current                            | 24,942          | 17,698          | 4,810           | 1,815           |
| Non-current                        | 1,731           | 1,207           | 43,549          | 24,939          |
|                                    | 26,673          | 18,905          | 48,359          | 26,754          |

The loan from subsidiaries are non-trade in nature, unsecured, interest-bearing and repayable within 3 to 5 years (2018: 4 years).

# NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

## 12. FINANCIAL DERIVATIVES

|                                      | Group and REIT |         |
|--------------------------------------|----------------|---------|
|                                      | 2019           | 2018    |
|                                      | S\$'000        | S\$'000 |
| <b>Derivative liabilities</b>        |                |         |
| Interest rate swaps used for hedging | 1,047          | 74      |
| Current                              | -              | 74      |
| Non-current                          | 1,047          | -       |
|                                      | 1,047          | 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 S\$145.0 million (2018: S\$77.0 million) and S\$145.0 million (2018: S\$77.0 million) respectively, have been entered into at the reporting date to provide fixed rate funding for average terms of 3 years (2018: 2 years) at an average interest rate of 1.84% (2018: 1.96%) per annum. These interest rate swaps are designated as hedging instruments in cash flow hedges. The fair value of financial derivatives represented 0.18% (2018: 0.01%) of the net assets of the Group as at 31 December 2019.

## 13. UNITHOLDERS' FUNDS

|                                      | Note | Group    |          | REIT     |          |
|--------------------------------------|------|----------|----------|----------|----------|
|                                      |      | 2019     | 2018     | 2019     | 2018     |
|                                      |      | S\$'000  | S\$'000  | S\$'000  | S\$'000  |
| At 1 January                         |      | 410,423  | 416,454  | 335,743  | 352,040  |
| Net assets resulting from operations |      | 46,284   | 29,665   | (2,973)  | 1,428    |
| Statutory reserve                    | (a)  | 1,722    | 1,492    | -        | -        |
|                                      |      | 458,429  | 447,611  | 332,770  | 353,468  |
| Foreign currency translation reserve | (b)  | (20,064) | (19,463) | -        | -        |
| Hedging reserve                      | (c)  | (973)    | (74)     | (973)    | (74)     |
| Unitholders' distributions           |      | (14,875) | (17,651) | (14,875) | (17,651) |
| At 31 December                       |      | 422,517  | 410,423  | 316,922  | 335,743  |

(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.

# NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

## 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.

|   | <b>2019</b>    | <b>2018</b>    |
|---|----------------|----------------|
|   | <b>S\$'000</b> | <b>S\$'000</b> |
| Non-current assets  | 483,283        | 478,222        |
| Current assets  | 26,323         | 39,596         |
| Non-current liabilities                                     | (74,425)       | (29,356)       |
| Current liabilities   | (21,136)       | (67,000)       |
| <b>Net assets</b>   | <b>414,045</b> | <b>421,462</b> |
| <b>Net assets attributable to NCI</b>                       | <b>165,618</b> | <b>168,585</b> |
| <b>Revenue</b>  | <b>43,977</b>  | <b>42,461</b>  |
| <b>Total return after taxation</b>                          | <b>36,484</b>  | <b>36,229</b>  |
| <b>Total return after taxation attributable to NCI</b>      | <b>14,594</b>  | <b>14,491</b>  |
| Cash flows from operating activities                        | 20,540         | 20,232         |
| Cash flows (used in)/from investing activities              | (2,105)        | 941            |
| Cash flows used in financing activities                     | (22,625)       | (18,825)       |
| <b>Net (decrease)/increase in cash and cash equivalents</b> | <b>(4,190)</b> | <b>2,348</b>   |

# NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

## 15. UNITS IN ISSUE

|   | <b>2019</b>     | <b>2018</b>     |
|---|-----------------|-----------------|
|   | <b>Number</b>   | <b>Number</b>   |
|   | <b>of Units</b> | <b>of Units</b> |
|   | <b>'000</b>     | <b>'000</b>     |
| <b>Issue of new Units relating to:</b>                          |                 |                 |
| - as at beginning of the year                                   | 503,843         | 499,737         |
| - payment of Manager's management base fees                     | 2,607           | 3,057           |
| - payment of Manager's management acquisition fees              | 687             | -               |
| - payment of Property Manager's management fees                 | 1,321           | 1,049           |
|   | <u>508,458</u>  | <u>503,843</u>  |
| <b>Units to be issued:</b>                                      |                 |                 |
| - payment of Manager's management base fees                     | 638             | 585             |
| - payment of Property Manager's management fees                 | 394             | 249             |
|   | <u>1,032</u>    | <u>834</u>      |
| <b>Total Units in issue and to be issued at the end of year</b> | <u>509,490</u>  | <u>504,677</u>  |

Units issued during the year ended 31 December 2019 are as follows:

- (a) On 5 March 2019, the REIT issued 585,000 and 249,000 new Units at an issue price of S\$0.7162 per Unit as payment of the base component of the Manager's management fee and Property Manager's management fees respectively, for the period from 1 October 2018 to 31 December 2018.
- (b) On 12 April 2019, the REIT issued 687,000 new Units at an issue price of S\$0.7108 per Unit as payment of the acquisition component of the Manager's management fees for acquiring Hefei Changjiangxilu mall.
- (c) On 6 September 2019, the REIT issued 670,000 and 281,000 new Units at an issue price of S\$0.7117 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 2019 to 31 March 2019.
- (d) On 6 September 2019, the REIT issued 747,000 and 376,000 new Units at an issue price of S\$0.7040 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 2019 to 30 June 2019.
- (e) On 13 December 2019, the REIT issued 605,000 and 415,000 new Units at an issue price of S\$0.6949 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 2019 to 30 September 2019.

# NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

## 15. UNITS IN ISSUE (CONT'D)

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 S\$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 S\$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 S\$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 S\$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 S\$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.

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;

# NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

## 15. UNITS IN ISSUE (CONT'D)

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:

| <b>Distribution Period</b>        | <b>Aggregate number<br/>of Strategic Investor<br/>Units not entitled to<br/>Distributions</b> | <b>% of total<br/>number of units<br/>on Listing Date</b> |
|-----------------------------------|---|---|
| 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
- 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.

# NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

## 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 2019 to 30 June 2019 had been paid on 27 September 2019. Distributions for the period from 1 July 2019 to 31 December 2019 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

|  | <b>Group</b>   |                |
|--|----------------|----------------|
|  | <b>2019</b>    | <b>2018</b>    |
|  | <b>S\$'000</b> | <b>S\$'000</b> |
| Advertising and promotion                                  | 2,702          | 2,160          |
| Depreciation of plant and equipment                        | 111            | 125            |
| Impairment losses recovered on trade and other receivables | (27)           | (7)            |
| Repair and maintenance                                     | 4,784          | 3,231          |
| Staff costs  | 1,694          | 818            |
| Utilities  | 8,410          | 8,454          |
| Others   | 538            | 444            |
|  | 18,212         | 15,225         |

Included in staff costs is contribution to defined contribution plans of S\$283,000 (2018: S\$113,000).

# NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

## 18. OTHER OPERATING EXPENSES

|                   | Group           |                 | REIT            |                 |
|-------------------|-----------------|-----------------|-----------------|-----------------|
|                   | 2019<br>S\$'000 | 2018<br>S\$'000 | 2019<br>S\$'000 | 2018<br>S\$'000 |
| Professional fees | 937             | 316             | 907             | 291             |
| Others            | 507             | 318             | 229             | 95              |
|                   | <u>1,444</u>    | <u>634</u>      | <u>1,136</u>    | <u>386</u>      |

## 19. FINANCE INCOME AND FINANCE COSTS

|   | Group           |                 | REIT            |                 |
|---|-----------------|-----------------|-----------------|-----------------|
|   | 2019<br>S\$'000 | 2018<br>S\$'000 | 2019<br>S\$'000 | 2018<br>S\$'000 |
| Finance income:   |                 |                 |                 |                 |
| – financial institutions                                  | 422             | 647             | –               | –               |
| Finance costs:  |                 |                 |                 |                 |
| – loans and borrowings                                    | (14,815)        | (9,709)         | (11,861)        | (6,030)         |
| Net finance costs recognised in statement of total return | <u>(14,393)</u> | <u>(9,062)</u>  | <u>(11,861)</u> | <u>(6,030)</u>  |

## 20. TAXATION

|  | Group           |                 | REIT            |                 |
|--|-----------------|-----------------|-----------------|-----------------|
|  | 2019<br>S\$'000 | 2018<br>S\$'000 | 2019<br>S\$'000 | 2018<br>S\$'000 |
| <b>Current taxation</b>                                |                 |                 |                 |                 |
| Current year   | 7,918           | 6,894           | –               | –               |
| Withholding tax  | 713             | 543             | 73              | –               |
|  | <u>8,631</u>    | <u>7,437</u>    | <u>73</u>       | <u>–</u>        |
| <b>Deferred taxation</b>                               |                 |                 |                 |                 |
| Origination of temporary differences (Note 8)          | 12,157          | 6,452           | –               | –               |
| <b>Income tax expense</b>                              | <u>20,788</u>   | <u>13,889</u>   | <u>73</u>       | <u>–</u>        |
| <b>Reconciliation of effective tax rate</b>            |                 |                 |                 |                 |
| Total return for the year before taxation              | <u>83,388</u>   | <u>59,537</u>   | <u>(2,900)</u>  | <u>1,428</u>    |
| Tax calculated using Singapore tax rate of 17%         | 14,176          | 10,121          | (493)           | 243             |
| Adjustments:   |                 |                 |                 |                 |
| Effect of different tax rates in foreign jurisdictions | 6,531           | 4,256           | –               | –               |
| Income not subject to tax                              | (5,552)         | (2,412)         | (2,006)         | (1,598)         |
| Expenses not deductible for tax purposes               | 2,408           | 16              | –               | –               |
| Tax losses not allowed to be carried forward           | 2,511           | 1,365           | 2,499           | 1,355           |
| Withholding tax  | 714             | 543             | 73              | –               |
|  | <u>20,788</u>   | <u>13,889</u>   | <u>73</u>       | <u>–</u>        |

# NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

## 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   |         |
|--|---------|---------|
|  | 2019    | 2018    |
|  | S\$'000 | S\$'000 |
| Total return for the year after taxation and non-controlling interests | 48,006  | 31,157  |

|   | Group                |                      |
|---|----------------------|----------------------|
|   | 2019                 | 2018                 |
|   | Number of units '000 | Number of units '000 |
| Issued Units  |                      |                      |
| – As at beginning of the year   | 504,677              | 500,934              |
| – Manager's management fees paid/payable in Units                       | 1,557                | 1,062                |
| – Property Manager's management fees paid/payable in Units              | 510                  | 398                  |
| Weighted average number of issued and issuable Units at end of the year | 506,744              | 502,394              |

### 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   |         |
|--|---------|---------|
|  | 2019    | 2018    |
|  | S\$'000 | S\$'000 |
| Total return for the year after taxation and non-controlling interests | 48,006  | 31,157  |

|   | Group                |                      |
|---|----------------------|----------------------|
|   | Number of Units '000 | Number of Units '000 |
| Issued Units  |                      |                      |
| – As at beginning of the year   | 504,677              | 500,934              |
| – Manager's management fees paid/payable in Units                       | 3,347                | 2,703                |
| – Property Manager's management fees paid/payable in Units              | 1,466                | 1,040                |
| Weighted average number of issued and issuable Units at end of the year | 509,490              | 504,677              |

# NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

## 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.

## 23. FINANCIAL RATIOS

|   | Group |      |
|---|-------|------|
|   | 2019  | 2018 |
|   | %     | %    |
| Ratio of expenses to average net asset value <sup>(1)</sup> | 0.91  | 0.71 |
| Ratio of expenses to net asset value <sup>(2)</sup>         | 5.50  | 4.68 |
| Portfolio turnover rate <sup>(3)</sup>                      | 15.76 | N.A. |

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 (2019: S\$32,373,000 and 2018: S\$27,117,000) 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 in 2018.

# NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

## 24. OPERATING SEGMENTS

The Group has 6 (2018: 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")
- Hefei Hualian Ruicheng Shopping Plaza Commercial Operation Ltd. ("Hefei Changjiangxilu")
- Qinghai Xinglian Real Property Co., Ltd. ("Xining Huayuan")
- Dalian Hualian Commercial Facilities Operation Co., Ltd. ("Dalian Jinsanjiao")

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

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

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

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

# NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

## 24. OPERATING SEGMENTS (CONT'D)

### Information about reportable segments

|  | Beijing<br>Wanliu<br>S\$'000 | Chengdu<br>Konggang<br>S\$'000 | Hefei<br>Mengchenglu<br>S\$'000 | Hefei<br>Changjiangxilu<br>S\$'000 | Xining<br>Huayuan<br>S\$'000 | Dalian<br>Jinsanjiao<br>S\$'000 | Total<br>S\$'000 |
|--|------------------------------|--------------------------------|---------------------------------|------------------------------------|------------------------------|---------------------------------|------------------|
| <b>2019</b>  |                              |                                |                                 |                                    |                              |                                 |                  |
| <b>External revenues:</b>                              |                              |                                |                                 |                                    |                              |                                 |                  |
| - Gross rental income                                  | 39,864                       | 11,561                         | 8,002                           | 6,276                              | 3,253                        | 2,282                           | 71,238           |
| - Others   | 4,113                        | 2,050                          | 1,030                           | 627                                | -                            | -                               | 7,820            |
| - Gross revenue  | 43,977                       | 13,611                         | 9,032                           | 6,903                              | 3,253                        | 2,282                           | 79,058           |
| <b>Segment net property income</b>                     | 29,668                       | 7,138                          | 5,181                           | 3,436                              | 2,988                        | 2,065                           | 50,476           |
| <b>Finance income</b>                                  | 163                          | 83                             | 567                             | 37                                 | 44                           | 51                              | 945              |
| <b>Finance costs</b>                                   | 2,280                        | -                              | 1,191                           | 4                                  | -                            | -                               | 3,475            |
| <b>Reportable segment total return before taxation</b> | 46,584                       | 7,769                          | 266                             | 37,926                             | 2,966                        | 3,246                           | 98,757           |
| <b>Segment assets</b>                                  | 521,714                      | 159,066                        | 148,914                         | 103,080                            | 60,699                       | 38,429                          | 1,031,902        |
| <b>Segment liabilities</b>                             | 292,735                      | 154,524                        | 142,643                         | 77,659                             | 56,676                       | 32,527                          | 756,764          |
| <b>Other segment items:</b>                            |                              |                                |                                 |                                    |                              |                                 |                  |
| Depreciation   | 31                           | 51                             | 7                               | 22                                 | -                            | -                               | 111              |
| Net change in fair value of investment properties      | 18,790                       | (68)                           | (4,344)                         | 33,319                             | -                            | 1,159                           | 48,856           |
| Capital expenditure                                    | 2,138                        | 4,404                          | 4,061                           | 333                                | -                            | -                               | 10,936           |

# NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

## 24. OPERATING SEGMENTS (CONT'D)

### Information about reportable segments (cont'd)

|  | Beijing<br>Wanliu<br>S\$'000 | Chengdu<br>Konggang<br>S\$'000 | Hefei<br>Mengchenglu<br>S\$'000 | Xining<br>Huayuan<br>S\$'000 | Dalian<br>Jinsanjiao<br>S\$'000 | Total<br>S\$'000 |
|--|------------------------------|--------------------------------|---------------------------------|------------------------------|---------------------------------|------------------|
| <b>2018</b>  |                              |                                |                                 |                              |                                 |                  |
| <b>External revenues:</b>                              |                              |                                |                                 |                              |                                 |                  |
| - 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           |
| <b>Segment net property income</b>                     | 28,139                       | 6,516                          | 5,791                           | 3,073                        | 2,128                           | 45,647           |
| <b>Finance income</b>                                  | 226                          | 173                            | 483                             | 32                           | 49                              | 963              |
| <b>Finance costs</b>                                   | 2,779                        | -                              | 1,218                           | -                            | -                               | 3,997            |
| <b>Reportable segment total return before taxation</b> | 46,072                       | 7,062                          | 9,145                           | 3,082                        | 2,148                           | 67,509           |
| <b>Segment assets</b>                                  | 517,939                      | 158,164                        | 144,244                         | 60,963                       | 37,271                          | 918,581          |
| <b>Segment liabilities</b>                             | 294,182                      | 154,665                        | 135,122                         | 56,780                       | 32,335                          | 673,084          |
| <b>Other segment items:</b>                            |                              |                                |                                 |                              |                                 |                  |
| 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            |

# NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

## 24. OPERATING SEGMENTS (CONT'D)

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

|  | 2019<br>S\$'000 | 2018<br>S\$'000 |
|--|-----------------|-----------------|
| <b>Revenue</b>                                       |                 |                 |
| Total revenue for reporting segments                 | 79,058          | 69,669          |
| <b>Total return</b>                                  |                 |                 |
| Total return for reportable segments before taxation | 98,757          | 67,509          |
| Unallocated amounts:                                 |                 |                 |
| - Other corporate expenses                           | (15,369)        | (7,972)         |
| Total return before taxation                         | 83,388          | 59,537          |
| <b>Assets</b>  |                 |                 |
| Total assets for reportable segments                 | 1,031,902       | 918,581         |
| Other unallocated amounts                            | (74,118)        | (48,712)        |
| Consolidated assets                                  | 957,784         | 869,869         |
| <b>Liabilities</b>                                   |                 |                 |
| Total liabilities for reportable segments            | 756,764         | 673,084         |
| Other unallocated amounts                            | (387,115)       | (382,223)       |
| Consolidated liabilities                             | 369,649         | 290,861         |

|  | Reportable<br>segment<br>totals<br>S\$'000 | Unallocated<br>amounts<br>S\$'000 | Consolidated<br>totals<br>S\$'000 |
|--|--|-----------------------------------|-----------------------------------|
| <b>Other material items 31 December 2019</b> |  |                                   |                                   |
| Finance income                               | 945  | (523)                             | 422                               |
| Finance costs                                | 3,475                                      | 11,340                            | 14,815                            |
| <b>Other material items 31 December 2018</b> |  |                                   |                                   |
| Finance income                               | 963  | (316)                             | 647                               |
| Finance costs                                | 3,997                                      | 5,712                             | 9,709                             |

### Other material items 31 December 2019

|                |       |        |        |
|----------------|-------|--------|--------|
| Finance income | 945   | (523)  | 422    |
| Finance costs  | 3,475 | 11,340 | 14,815 |

### Other material items 31 December 2018

|                |       |       |       |
|----------------|-------|-------|-------|
| Finance income | 963   | (316) | 647   |
| Finance costs  | 3,997 | 5,712 | 9,709 |

### 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 S\$8.7 million (2018: S\$8.8 million) of the Group's total revenue.

# NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

## 25. COMMITMENTS

The Group leases out its investment property consisting of its owned commercial properties (see Note 4). All leases are classified as operating leases from a lessor perspective. The following table sets out a maturity analysis of lease payments, showing the undiscounted lease payments to be received after the reporting date:

|                                       | <b>Group<br/>S\$'000</b> |
|---------------------------------------|--------------------------|
| <hr/>                                 |                          |
| 2019 – Operating leases under FRS 116 |                          |
| – within 1 year                       | 60,416                   |
| – 1 to 2 years                        | 63,012                   |
| – 2 to 3 years                        | 29,847                   |
| – 3 to 4 years                        | 19,584                   |
| – 4 to 5 years                        | 21,885                   |
| – after 5 years                       | 61,683                   |
|                                       | <hr/>                    |
|                                       | 256,427                  |
|                                       | <hr/>                    |
| 2018 – Operating leases under FRS 17  |                          |
| – within 1 year                       | 51,436                   |
| – after 1 year but within 5 years     | 79,699                   |
| – after 5 years                       | 90,589                   |
|                                       | <hr/>                    |
|                                       | 221,724                  |
|                                       | <hr/>                    |

## 26. ACQUISITION OF SUBSIDIARIES

In 2019, the Group acquired equity interests in Fuchsia (China) Mall Pte. Ltd. which owned a wholly-owned subsidiary, Hefei Hualian Ruicheng Shopping Plaza Commercial Operations Ltd. (“Hefei Ruicheng”). Hefei Ruicheng held interest in Hefei Changjiangxilu Mall located in China. The consideration of the acquisition amounted to S\$64.5 million (approximately RMB 322.5 million).

The acquisition was accounted for as an acquisition of assets. The following table summarises the recognised amounts of assets and liabilities acquired at the date of acquisition:

|                             | <b>Group<br/>2019<br/>S\$'000</b> |
|-----------------------------|-----------------------------------|
| Investment property         | 64,876                            |
| Plant and equipment         | 126                               |
| Trade and other receivables | 2,463                             |
| Cash at bank                | 2,072                             |
| Deferred tax assets         | 6                                 |
| Trade and other payables    | (1,469)                           |
| Security deposits           | (2,163)                           |
| Current tax liabilities     | (295)                             |
|                             | <hr/>                             |
|                             | 65,616                            |
|                             | <hr/>                             |

# NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

## 26. ACQUISITION OF SUBSIDIARIES (CONT'D)

|  | <b>Group<br/>2019<br/>S\$'000</b> |
|--|-----------------------------------|
| <b>Consideration transferred</b>               |                                   |
| Cash paid                                      | 64,458                            |
| <b>Effect of the acquisition on cash flows</b> |                                   |
| Consideration for equity interests             | 64,458                            |
| Add: Acquisition costs                         | 669                               |
| Less: Cash at bank of subsidiaries acquired    | (2,072)                           |
| Net cash outflow                               | 63,055                            |

## 27. 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% (2018: 45.0%) of its Deposited Property. The Group's aggregate leverage limit did not exceed 45.0% (2018: 45.0%) during the year, and was 35.7% (2018: 30.7%) as at 31 December 2019.

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

# NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

## 27. CAPITAL AND FINANCIAL RISK MANAGEMENT (CONT'D)

### *Financial risk management*

#### *Overview*

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

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

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

#### *Credit risk*

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

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 from Baa2 to 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.

# NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

## 27. CAPITAL AND FINANCIAL RISK MANAGEMENT (CONT'D)

### Liquidity risk

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

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

|  | Carrying<br>amount<br>S\$'000 | Contractual<br>cash flow<br>S\$'000 | Within<br>1 year<br>S\$'000 | After 1<br>year but<br>within<br>5 years<br>S\$'000 | After<br>5 years<br>S\$'000 |
|--|-------------------------------|-------------------------------------|-----------------------------|---|-----------------------------|
| <b>31 December 2019</b>                            |                               |                                     |                             |   |                             |
| <b>Group</b>                                       |                               |                                     |                             |   |                             |
| <b>Non-derivative financial liabilities</b>        |                               |                                     |                             |   |                             |
| Loans and borrowings                               | 278,584                       | 311,310                             | 14,154                      | 297,156   | -                           |
| Trade and other payables                           | 26,673                        | 26,673                              | 24,942                      | 1,731   | -                           |
| Security deposits                                  | 20,946                        | 20,946                              | 13,279                      | 7,667   | -                           |
|  | <u>326,023</u>                | <u>358,929</u>                      | <u>52,375</u>               | <u>306,554</u>                                      | <u>-</u>                    |
| <b>Derivative financial liabilities</b>            |                               |                                     |                             |   |                             |
| Interest rate swaps used for hedging (net-settled) | 1,047                         | 1,047                               | 1,047                       | -   | -                           |
|  | <u>327,250</u>                | <u>359,976</u>                      | <u>53,422</u>               | <u>306,554</u>                                      | <u>-</u>                    |
| <b>REIT</b>  |                               |                                     |                             |   |                             |
| <b>Non-derivative financial liabilities</b>        |                               |                                     |                             |   |                             |
| Loans and borrowings                               | 228,890                       | 255,143                             | 11,314                      | 243,829   | -                           |
| Trade and other payables                           | 48,359                        | 52,491                              | 5,820                       | 46,671  | -                           |
|  | <u>277,249</u>                | <u>307,634</u>                      | <u>17,134</u>               | <u>290,500</u>                                      | <u>-</u>                    |
| <b>Derivative financial liabilities</b>            |                               |                                     |                             |   |                             |
| Interest rate swaps used for hedging (net-settled) | 1,047                         | 1,047                               | 1,047                       | -   | -                           |
|  | <u>278,296</u>                | <u>308,681</u>                      | <u>18,181</u>               | <u>290,500</u>                                      | <u>-</u>                    |

# NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

## 27. CAPITAL AND FINANCIAL RISK MANAGEMENT (CONT'D)

### Liquidity risk (cont'd)

|  | Carrying<br>amount<br>S\$'000 | Contractual<br>cash flow<br>S\$'000 | Within<br>1 year<br>S\$'000 | After 1<br>year but<br>within<br>5 years<br>S\$'000 | After<br>5 years<br>S\$'000 |
|--|-------------------------------|-------------------------------------|-----------------------------|---|-----------------------------|
| <b>31 December 2018</b>                            |                               |                                     |                             |   |                             |
| <b>Group</b>                                       |                               |                                     |                             |   |                             |
| <b>Non-derivative financial liabilities</b>        |                               |                                     |                             |   |                             |
| 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                       |
| <b>Derivative financial liabilities</b>            |                               |                                     |                             |   |                             |
| Interest rate swaps used for hedging (net-settled) | 74                            | 74                                  | 74                          | -   | -                           |
|  | 259,108                       | 268,026                             | 261,662                     | 4,751   | 1,613                       |
| <b>REIT</b>  |                               |                                     |                             |   |                             |
| <b>Non-derivative financial liabilities</b>        |                               |                                     |                             |   |                             |
| 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  | -                           |
| <b>Derivative financial liabilities</b>            |                               |                                     |                             |   |                             |
| Interest rate swaps used for hedging (net-settled) | 74                            | 74                                  | 74                          | -   | -                           |
|  | 189,376                       | 194,758                             | 169,819                     | 24,939  | -                           |

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 flows 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.

# NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

## 27. CAPITAL AND FINANCIAL RISK MANAGEMENT (CONT'D)

### *Liquidity risk (cont'd)*

In addition, the Group maintains the following debt facilities and programme as at 31 December 2019:

Chinese Renminbi ("RMB") denominated facility:

- RMB 302.0 million three-year secured term loan facilities

S\$ denominated facilities:

- S\$177.8 million three-year secured term loan facilities
- S\$2.0 million credit facilities

US\$ denominated facilities:

- US\$43.8 million three-year secured term loan facilities

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

### *Market risk*

Market risk is the risk that changes in market prices such as foreign exchange rates and interest rates will affect the Group's income. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

The Group enters financial derivatives in order to manage market risks. Generally, the Group seeks to apply hedge accounting in order to manage volatility in profit or loss.

A fundamental review and reform of major interest rate benchmarks is being undertaken globally. There is uncertainty as to the timing and the methods of transition for replacing existing benchmark interbank offered rates (IBORs) within alternative rates. In Singapore, the fundamental review and reform of the two key Singapore Dollar Interest rate benchmarks that are widely referenced in financial contracts, namely Singapore interbank offered rates (SIBORs) and Singapore swap offer rates (SORs), and the transition from SOR to the Singapore Overnight Rate Average (SORA), is also ongoing.

As a result of these uncertainties, significant accounting judgement is involved in determining whether certain hedge accounting relationships hedge the variability interest rate risk due to expected changes in IBORs continue to qualify for hedge accounting as at 31 December 2019. IBOR continues to be used as a reference rate in financial markets and is used in the valuation of instruments with maturities that exceed the expected end date of IBOR. In Singapore, SIBOR and SOR continue to be used as reference rates in financial markets are used in the valuation of instruments with maturities that exceed the expected end date for SIBOR and SOR. Therefore, the Group believes the current market structure supports the continuation of hedge accounting as at 31 December 2019.

# NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

## 27. CAPITAL AND FINANCIAL RISK MANAGEMENT (CONT'D)

### Interest rate risk

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

The Manager proactively seeks to minimise the level of interest rate risk by locking a portion of the Group's borrowings at fixed rates. As at 31 December 2019, the Group has entered into interest rate swaps with a total notional amount of S\$145.0 million (2018: S\$77.0 million) 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

|                             | Statements of total return |                            | Unitholders' funds         |                            |
|-----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|
|                             | 100 bp increase<br>S\$'000 | 100 bp decrease<br>S\$'000 | 100 bp increase<br>S\$'000 | 100 bp decrease<br>S\$'000 |
| <b>31 December 2019</b>     |                            |                            |                            |                            |
| <b>Group</b>                |                            |                            |                            |                            |
| Variable rate instruments   | (2,842)                    | 2,842                      | -                          | -                          |
| Interest rate swaps         | 377                        | (377)                      | 687                        | (687)                      |
| Cash flow sensitivity (net) | (2,465)                    | 2,465                      | 687                        | (687)                      |
| <b>REIT</b>                 |                            |                            |                            |                            |
| Variable rate instruments   | (2,344)                    | 2,344                      | -                          | -                          |
| Interest rate swaps         | 377                        | (377)                      | 687                        | (687)                      |
| Cash flow sensitivity (net) | (1,967)                    | 1,967                      | 687                        | (687)                      |
| <b>31 December 2018</b>     |                            |                            |                            |                            |
| <b>Group</b>                |                            |                            |                            |                            |
| Variable rate instruments   | (2,213)                    | 2,213                      | -                          | -                          |
| Interest rate swaps         | 41                         | (41)                       | 378                        | (378)                      |
| Cash flow sensitivity (net) | (2,172)                    | 2,172                      | 378                        | (378)                      |
| <b>REIT</b>                 |                            |                            |                            |                            |
| Variable rate instruments   | (1,615)                    | 1,615                      | -                          | -                          |
| Interest rate swaps         | 41                         | (41)                       | 378                        | (378)                      |
| Cash flow sensitivity (net) | (1,574)                    | 1,574                      | 378                        | (378)                      |

# NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

## 27. CAPITAL AND FINANCIAL RISK MANAGEMENT (CONT'D)

### 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:

|                           | USD<br>S\$'000 | RMB<br>S\$'000 | Total<br>S\$'000 |
|---------------------------|----------------|----------------|------------------|
| <b>31 December 2019</b>   |                |                |                  |
| <b>Group</b>              |                |                |                  |
| Cash and cash equivalents | 23             | 43,393         | 43,416           |
| Loans and borrowings      | 57,925         | 49,826         | 107,751          |
|                           | <u>57,948</u>  | <u>93,219</u>  | <u>151,167</u>   |
| <b>REIT</b>               |                |                |                  |
| Cash and cash equivalents | 20             | -              | 20               |
| Loans and borrowings      | 57,925         | -              | 57,925           |
|                           | <u>57,945</u>  | <u>-</u>       | <u>57,945</u>    |
| <b>31 December 2018</b>   |                |                |                  |
| <b>Group</b>              |                |                |                  |
| Cash and cash equivalents | -              | 55,150         | 55,150           |

The REIT is not exposed to significant foreign currency risks as at 31 December 2018.

# NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

## 27. 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<br>S\$'000           | REIT<br>S\$'000 |
| <b>31 December 2019</b> |                            |                 |
| RMB                     | (9,322)                    | -               |
| USD                     | (5,795)                    | (5,795)         |
|                         | <u>(15,117)</u>            | <u>(5,795)</u>  |
| <b>31 December 2018</b> |                            |                 |
| RMB                     | <u>(5,515)</u>             | -               |

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 2019, the Group held the following instruments to hedge exposures to changes in interest rates.

| Group                              | Maturity      |                |                       |
|------------------------------------|---------------|----------------|-----------------------|
|                                    | 1-6<br>months | 6-12<br>months | More than<br>one year |
| <b>2019</b>                        |               |                |                       |
| <b>Interest rate risk</b>          |               |                |                       |
| <b>Interest rate swaps</b>         |               |                |                       |
| Net exposure (in thousands of SGD) | -             | -              | 145,000               |
| Average fixed interest rate        | -             | -              | 1.84%                 |
| <b>2018</b>                        |               |                |                       |
| <b>Interest rate risk</b>          |               |                |                       |
| <b>Interest rate swaps</b>         |               |                |                       |
| 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.

# NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

## 27. CAPITAL AND FINANCIAL RISK MANAGEMENT (CONT'D)

### Hedge accounting (cont'd)

| Group                     | Change in value used for calculating hedge ineffective hedge ineffectiveness<br>S\$'000 | Cash flow hedge reserve<br>S\$'000 | Costs of hedging reserve<br>S\$'000 | Balances remaining in the cash flow hedge reserve from hedging relationships for which hedge accounting is no longer applied<br>S\$'000 |
|---------------------------|---|------------------------------------|-------------------------------------|---|
| <b>2019</b>               |   |                                    |                                     |   |
| <b>Interest rate risk</b> |   |                                    |                                     |   |
| Variable-rate instruments | -   | 1,047                              | -                                   | -   |
| <b>2018</b>               |   |                                    |                                     |   |
| <b>Interest rate risk</b> |   |                                    |                                     |   |
| Variable-rate instruments | -   | 74                                 | -                                   | -   |

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

|                           | 2019                      |                                     |  | Line item in the statement of financial position where the hedging instrument is included | 2018                      |                                     |  | Line item in the statement of financial position where the hedging instrument is included |
|---------------------------|---------------------------|-------------------------------------|--|---|---------------------------|-------------------------------------|--|---|
|                           | Nominal amount<br>S\$'000 | Carrying amount - assets<br>S\$'000 | Carrying amount - liabilities<br>S\$'000 |   | Nominal amount<br>S\$'000 | Carrying amount - assets<br>S\$'000 | Carrying amount - liabilities<br>S\$'000 |   |
| <b>Interest rate risk</b> |                           |                                     |  |   |                           |                                     |  |   |
| Interest rate swaps       | 145,000                   | -                                   | 1,047                                    | Derivative liabilities  | 77,000                    | -                                   | 74                                       | Derivative liabilities  |

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.

# NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

## 27. CAPITAL AND FINANCIAL RISK MANAGEMENT (CONT'D)

### Hedge accounting (cont'd)

|  | Group                         |  |
|--|-------------------------------|--|
|  | Hedging<br>reserve<br>S\$'000 | Cost of<br>hedging<br>reserve<br>S\$'000 |
| <b>Balance at 1 January 2019</b>             | 74                            | -  |
| <b>Cash flow hedges</b>                      |                               |  |
| Change in fair value:                        |                               |  |
| Interest rate risk                           | 973                           | -  |
| Amount reclassified to profit or loss:       |                               |  |
| Interest rate risk                           | -                             | -  |
| Tax on movements on reserves during the year | -                             | -  |
| <b>Balance at 31 December 2019</b>           | 1,047                         | -  |
| <b>Balance at 1 January 2018</b>             | -                             | -  |
| <b>Cash flow hedges</b>                      |                               |  |
| 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 | -                             | -  |
| <b>Balance at 31 December 2018</b>           | 74                            | -  |

# NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

## 27. CAPITAL AND FINANCIAL RISK MANAGEMENT (CONT'D)

### Accounting classifications and fair values

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

|   | Carrying amount                      |   |                                   |                             | Fair value |         |         |         |
|---|--------------------------------------|---|-----------------------------------|-----------------------------|------------|---------|---------|---------|
|   | Fair value<br>hedging<br>instruments | Financial<br>assets at<br>amortised<br>cost | Other<br>financial<br>liabilities | Total<br>carrying<br>amount | Level 1    | Level 2 | Level 3 | Total   |
|   | S\$'000                              | S\$'000                                     | S\$'000                           | S\$'000                     | S\$'000    | S\$'000 | S\$'000 | S\$'000 |
| <b>Group</b>  |                                      |   |                                   |                             |            |         |         |         |
| <b>31 December 2019</b>                                 |                                      |   |                                   |                             |            |         |         |         |
| <b>Financial assets not measured at fair value</b>      |                                      |   |                                   |                             |            |         |         |         |
| Trade and other receivables                             | -                                    | 930   | -                                 | 930                         |            |         |         |         |
| Cash and cash equivalents                               | -                                    | 47,033                                      | -                                 | 47,033                      |            |         |         |         |
|   | -                                    | 47,963                                      | -                                 | 47,963                      |            |         |         |         |
| <b>Financial liabilities measured at fair value</b>     |                                      |   |                                   |                             |            |         |         |         |
| Interest rate swaps used for hedging                    | 1,047                                | -   | -                                 | 1,047                       | 1,047      | -       | -       | 1,047   |
| <b>Financial liabilities not measured at fair value</b> |                                      |   |                                   |                             |            |         |         |         |
| Trade and other payables                                | -                                    | -   | 26,673                            | 26,673                      |            |         |         |         |
| Security deposits                                       | -                                    | -   | 20,946                            | 20,946                      | -          | 20,123  | -       | 20,123  |
| Loans and borrowings                                    | -                                    | -   | 278,584                           | 278,584                     |            |         |         |         |
|   | -                                    | -   | 326,203                           | 326,203                     |            |         |         |         |
| <b>REIT</b>   |                                      |   |                                   |                             |            |         |         |         |
| <b>31 December 2019</b>                                 |                                      |   |                                   |                             |            |         |         |         |
| <b>Financial assets not measured at fair value</b>      |                                      |   |                                   |                             |            |         |         |         |
| Trade and other receivables                             | -                                    | 303   | -                                 | 303                         |            |         |         |         |
| Cash and cash equivalents                               | -                                    | 3,353                                       | -                                 | 3,353                       |            |         |         |         |
|   | -                                    | 3,656                                       | -                                 | 3,656                       |            |         |         |         |
| <b>Financial liabilities measured at fair value</b>     |                                      |   |                                   |                             |            |         |         |         |
| Interest rate swaps used for hedging                    | 1,047                                | -   | -                                 | 1,047                       | 1,047      | -       | -       | 1,047   |
| <b>Financial liabilities not measured at fair value</b> |                                      |   |                                   |                             |            |         |         |         |
| Trade and other payables                                | -                                    | -   | 48,359                            | 48,359                      | -          | 40,094  | -       | 40,094  |
| Loans and borrowings                                    | -                                    | -   | 228,890                           | 228,890                     |            |         |         |         |
|   | -                                    | -   | 277,249                           | 277,249                     |            |         |         |         |

# NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

## 27. CAPITAL AND FINANCIAL RISK MANAGEMENT (CONT'D)

### Accounting classifications and fair values (cont'd)

|   | 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   |
|   | S\$'000                        | S\$'000                            | S\$'000                     | S\$'000               | S\$'000    | S\$'000 | S\$'000 | S\$'000 |
| <b>Group</b>  |                                |                                    |                             |                       |            |         |         |         |
| <b>31 December 2018</b>                                 |                                |                                    |                             |                       |            |         |         |         |
| <b>Financial assets not measured at fair value</b>      |                                |                                    |                             |                       |            |         |         |         |
| Trade and other receivables                             | -                              | 1,467                              | -                           | 1,467                 |            |         |         |         |
| Cash and cash equivalents                               | -                              | 55,590                             | -                           | 55,590                |            |         |         |         |
|   | -                              | 57,057                             | -                           | 57,057                |            |         |         |         |
| <b>Financial liabilities measured at fair value</b>     |                                |                                    |                             |                       |            |         |         |         |
| Interest rate swaps used for hedging                    | 74                             | -                                  | -                           | 74                    | 74         | -       | -       | 74      |
| <b>Financial liabilities not measured at fair value</b> |                                |                                    |                             |                       |            |         |         |         |
| 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               |            |         |         |         |
| <b>REIT</b>   |                                |                                    |                             |                       |            |         |         |         |
| <b>31 December 2018</b>                                 |                                |                                    |                             |                       |            |         |         |         |
| <b>Financial assets not measured at fair value</b>      |                                |                                    |                             |                       |            |         |         |         |
| Trade and other receivables                             | -                              | 398                                | -                           | 398                   |            |         |         |         |
| Cash and cash equivalents                               | -                              | 112                                | -                           | 112                   |            |         |         |         |
|   | -                              | 510                                | -                           | 510                   |            |         |         |         |
| <b>Financial liabilities measured at fair value</b>     |                                |                                    |                             |                       |            |         |         |         |
| Interest rate swaps used for hedging                    | 74                             | -                                  | -                           | 74                    | 74         | -       | -       | 74      |
| <b>Financial liabilities not measured at fair value</b> |                                |                                    |                             |                       |            |         |         |         |
| Trade and other payables                                | -                              | -                                  | 26,754                      | 26,754                | -          | 21,036  | -       | 21,036  |
| Loans and borrowings                                    | -                              | -                                  | 162,548                     | 162,548               |            |         |         |         |
|   | -                              | -                                  | 189,302                     | 189,302               |            |         |         |         |

# NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

## 27. CAPITAL AND FINANCIAL RISK MANAGEMENT (CONT'D)

### Estimation of fair value

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

#### Interest-bearing borrowings

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

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

#### 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.

#### 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 2019 plus an adequate constant credit spread, and are as follows:

|                          | Group  |        | REIT   |        |
|--------------------------|--------|--------|--------|--------|
|                          | 2019   | 2018   | 2019   | 2018   |
|                          | % p.a. | % p.a. | % p.a. | % p.a. |
| Security deposits        | 5.15   | 4.35   | -      | -      |
| Trade and other payables | -      | -      | 5.15   | 4.35   |

### Transfer between Level 1 and 2

During the financial year ended 31 December 2019, there were no transfers between Level 1 and Level 2

# NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

## 28. SUBSEQUENT EVENTS

On 25 February 2020, the Manager declared a distribution of 1.79 cents per Unit to Unitholders in respect of the period from 1 July 2019 to 31 December 2019.

Pursuant to the Hefei's authorities' Notice on the Strengthening and Prevention and Control of the Epidemic Situation in Commercial Enterprises dated 6 February 2020 to contain the spread of the Novel Coronavirus ("COVID-19"), the Manager had immediately announced the REIT temporarily closed all stores other than certain food and beverages outlets providing delivery services and the supermarkets in Hefei Mengchenglu Mall and Hefei Changjiangxilu Mall while at this date of report, other malls continue to operate with reduced operation hours.

On 10 March 2020, the Manager had announced that Hefei Mengchenglu Mall and Hefei Changjiangxilu Mall had reopened upon approval from the relevant local authorities. In addition, the Group will offer relief arrangements such as rental rebates to qualifying tenants to help them tide over the COVID-19 situation.

With the evolvement of the COVID-19 situation, the Group will continuously assess the situation and the impact on its operations and its financial position, including its ability to meet its working capital requirements and loan commitments, while taking into consideration the unutilised loan facilities as of current financial year end. The Group will also work with the local authorities to support its effort to contain the spread of the COVID-19 and the measures to minimise the impact to its businesses. As the effect of the outbreak and its impending duration is subject to uncertainty, the full financial impact of the COVID-19 on BHG Retail REIT could not be ascertained yet.

On 2 December 2019, the Trustee entered into the share purchase agreement with Horizon Thrive International Limited for the acquisition of 100.0% of the shares in Premier Outlets Investment Pte. Ltd. which holds Beijing Badaling Outlets Co., Ltd., which in turn wholly owns Badaling Outlets for the purchase consideration of S\$455.0 million. The independent valuation of Badaling Outlets amounted to RMB 2,991.4 million as valued by Jones Lang LaSalle Corporate Appraisal which the Manager has commissioned, and RMB 2,973.0 million as valued by Knight Frank Petty Limited which the Trustee has commissioned. The methods used by the independent valuers were the discounted cash flow approach and the direct comparison/market approach. As of the date of these financial statements, the REIT has yet to hold the extraordinary general meeting to obtain unitholders' approval on the proposed acquisition of Badaling Outlets in Beijing which was announced on 2 December 2019.

## 29. NEW STANDARDS AND INTERPRETATIONS NOT ADOPTED

A number of new standards, interpretations and amendments to standards are effective for annual periods beginning after 1 January 2020 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 not expected to have a significant impact on the Group's consolidated financial statements and the Company's statement of financial position.

- *Amendments to References to Conceptual Framework in FRS Standards*
- *Definition of a Business* (Amendments to FRS 103)
- *Definition of Material* (Amendments to FRS 1 and FRS 8)
- *FRS 117 Insurance Contracts*