

# CORPORATE GOVERNANCE

The board and management of SPH REIT Management Pte. Ltd., and the manager of SPH REIT (the “Board”; the “Management”; the “Manager”), are committed to good corporate governance as they firmly believe that it is essential to the sustainability of SPH REIT’s business and performance as well as in protecting the interests of the unitholders of SPH REIT (“Unitholders”). Good corporate governance is also critical to the performance and success of the Manager.

The Manager adopts the Code of Corporate Governance 2012 issued by the Monetary Authority of Singapore (the “MAS”) on 2 May 2012 (the “2012 Code”) as its benchmark for corporate governance policies and practices and SPH REIT is pleased to confirm that it has adhered to the principles and guidelines of the 2012 Code. In so far as any guideline has not been complied with, the reason has been provided. The following describes the Manager’s main corporate governance policies and practices, with specific reference to the 2012 Code.

The Annual Report should be read in totality for the Manager’s full compliance.

## THE MANAGER OF SPH REIT

The Manager has general powers of management over the assets of SPH REIT. The Manager’s main responsibility is to manage SPH REIT’s assets and liabilities for the benefit of Unitholders.

The Manager discharges its responsibility for the benefit of Unitholders, in accordance with applicable laws and regulations as well as the trust deed constituting SPH REIT dated 9 July 2013 (“Trust Deed”). The Manager sets the strategic direction of SPH REIT and gives recommendations to DBS Trustee Limited, as trustee of SPH REIT (the “Trustee”) on the acquisition, divestment, development and/or enhancement of assets of SPH REIT in accordance with its stated investment strategy. As a REIT manager, the Manager is granted a Capital Market Services Licence (“CMS Licence”) by the MAS.

The Manager uses its best endeavours to ensure that SPH REIT conducts its business in a proper and efficient manner; and conducts all transactions with or for SPH REIT on an arm’s length basis and on normal commercial terms.

The Manager’s other functions and responsibilities include:

1. preparing business plans on a regular basis, which may contain proposals and forecasts on gross revenue, capital expenditure, sales and valuations, explanations of major variances to previous forecasts, written commentary on key issues and any relevant assumptions;
2. ensuring compliance with the applicable provisions of the Securities and Futures Act and all other relevant legislation such as the SGX-ST Listing Manual of the Singapore Exchange Securities Trading Limited (“SGX-ST”), Appendix 6 of the Code on Collective Investment Schemes issued by the MAS (the “Property Funds Appendix”), the Trust Deed, the CMS Licence and any tax ruling and all relevant contracts;
3. attending to all regular communications with Unitholders; and
4. supervising SPH Retail Property Management Services Pte Ltd, the property manager that manages the day-to-day property management functions (including leasing, accounting, budgeting, marketing, promotion, property management, maintenance and administration) for SPH REIT’s properties, pursuant to the property management agreements signed for the respective properties.

## BOARD MATTERS

### Board’s Conduct of its Affairs

#### *Principle 1: Board’s Leadership and Control*

The Board is responsible for the overall management and corporate governance of the Manager and SPH REIT including establishing goals for Management and monitoring the achievement of these goals. The Board also sets the values and ethical standards of SPH REIT.

The key roles of the Board are to:

1. guide the corporate strategy and directions of the Manager;
2. ensure that senior management discharges business leadership and demonstrates the necessary management capability with integrity and enterprise;
3. oversee the proper conduct of the Manager; and
4. safeguard the interests of Unitholders and SPH REIT’s assets.

To assist the Board in the discharge of its oversight function, the Audit & Risk Committee (“ARC”) has been constituted with written terms of reference.

The Board has put in place a set of internal controls containing approval limits for operational and capital expenditures, investments and divestments, bank borrowings and cheque signatory arrangements. In addition, sub-limits are also delegated to various management levels to facilitate operational efficiency.

Matters requiring the Board’s decision and approval include:

1. Material transactions such as major funding proposals, investments, acquisitions and divestments including SPH REIT’s commitment in terms of capital and other resources;
2. The annual budgets and financial plans of SPH REIT;
3. Annual and quarterly financial reports;
4. Internal controls and risk management strategies and execution; and
5. Appointment of directors and key management staff, including review of performance and remuneration packages.

The names of the members of the Board Committee are set out on page 17.

## **Board Attendance**

The Board meets on a quarterly basis and as warranted by particular circumstances. Four Board meetings were held in the financial year ended 31 August 2015 (“FY2015”) to discuss and review the Manager’s and SPH REIT’s key activities, including its business strategies and policies for SPH REIT, proposed acquisitions and disposals, the annual budget, the performance of the business and the financial performance of SPH REIT and the Manager. The Board also reviews and approves the release of the quarterly, half and full-year results. A Director who is unable to attend any meeting in person may participate via telephone or video conference. The attendance of the Directors at meetings of the Board and ARC, and the frequency of such meetings, is disclosed on page 75. A Director who fails to attend three Board meetings consecutively, without good reason, will not be nominated for re-appointment and will be deemed to have resigned.

Directors are expected to exercise independent judgment in the best interests of SPH REIT, and have discharged this duty consistently.

## **Training for Directors**

Upon the appointment of a Director, he is provided with a formal letter setting out his key responsibilities.

Following their appointment, Directors are provided with opportunities for continuing education in areas such as Directors’ duties and responsibilities, changes to laws, regulations, accounting standards and industry-related matters so as to be updated on matters that affect or may enhance their performance as Board or ARC members.

Directors are informed and encouraged to attend relevant training programmes conducted by the Singapore Institute of Directors, Singapore Exchange Limited, and business and financial institutions and consultants.

For FY2015, Directors were provided with briefing and training in the areas of MAS regulations and proposed changes to the regime governing REITS as well as changes to the Companies Act. Directors were also provided with training in the areas of audit committee duties, in addition to updates on internal controls and regulatory requirements such as the Companies (Amendment) Act 2014 and the Personal Data Protection Act.

Directors may, at any time, request for further explanations, briefings or informal discussions on any aspect of SPH REIT’s or the Manager’s operations or business issues from Management.

They have been provided with the Code of Dealings in SPH REIT’s units as they are privy to price sensitive information.

## **Board Composition and Guidance**

### *Principle 2: Strong and Independent Board*

Currently, the Board comprises six Directors, of whom three are non-executive and independent Directors and three are non-executive Directors. Each Director has been appointed on the strength of his/her calibre and experience. The Board encompasses an appropriate balance and diversity of skills, experience, gender, knowledge and core competencies such as accounting, law, finance, business or management experience, industry knowledge and strategic planning experience. The Board will continue to review its composition regularly to ensure that the Board has the appropriate balance and diversity to maximise its effectiveness.

The Board considers that its present size is appropriate which facilitates effective decision making and allows for a balanced exchange of views, robust deliberations and debates among members, and effective oversight over Management.

The independence of each Director is assessed by the Board in accordance with Guideline 2.3 of the 2012 Code.

Key information regarding the Directors, including directorship and chairmanship both present and those held over the preceding three years in other listed companies, and other principal commitments, are set out in the Board of Directors' section and on pages 17 to 18 which provides further information on them.

The Board and Management are given opportunities to engage in open and constructive debate for the furtherance of strategic objectives of the Manager and SPH REIT. All Board members are supplied with relevant, complete and accurate information on a timely basis and non-executive Directors may challenge Management's assumptions and also extend guidance to Management, in the best interest of SPH REIT.

Non-executive Directors meet at least once annually without the presence of Management.

## **Chairman and Chief Executive Officer**

### *Principle 3: Clear division of responsibilities between Chairman and Chief Executive Officer to ensure a balance of power and authority*

The Chairman and CEO are separate persons and are not related, to maintain an effective check and balance. The Chairman is a non-executive and independent Director. The CEO bears executive responsibility for SPH REIT's business and implements the Board's strategic decisions. The roles of the Chairman and the CEO are kept separate to ensure an appropriate balance of power, increased accountability and greater capacity of the Board for independent decision-making.

The Chairman sets the agenda for Board meetings, ensures that adequate time is available for discussion of all agenda items, in particular, strategic issues, and that complete, adequate and timely information is made available to the Board. He encourages constructive relations within the Board and between the Board and Management, facilitates the effective contribution of non-executive Directors, and facilitates effective communications with Unitholders. He takes a lead role in promoting high standards of corporate governance, with the full support of the Directors, the Company Secretary and Management.

The Manager does not have any lead Independent Director given that the Chairman and CEO are not the same person and are not immediate family members, the Chairman is not a part of the management team and is an independent Director.

## **Board Membership**

### *Principle 4: Formal and transparent process for appointment of directors*

As the Manager is not a listed entity, it does not have a nominating committee. Thus, the Board performs the functions that such a committee would otherwise perform, namely, it administers nominations to the Board, reviews the structure, size and composition of the Board, and reviews the independence of Board members. Directors of the Manager are not subject to periodic retirement by rotation.

The composition of the Board, including the selection of candidates for new appointments to the Board as part of the Board's renewal process, is determined using the following principles:

- (a) the Board encompasses an appropriate balance and diversity of skills, experience, gender, knowledge and core competencies such as accounting, law, finance, business or management experience, industry knowledge and strategic planning experience.
- (b) at least one-third of the Board should comprise independent Directors. Where, among other things, the Chairman of the Board is not an independent Director, at least half of the Board should comprise independent Directors.

Guideline 4.4 of the 2012 Code recommends that the Board determine the maximum number of listed companies board representations which any director may hold and disclose this in the annual report. The Board is of the view that, the limit on the number of listed company directorships that an individual may hold should be six but this serves only as a guide. The Board has the discretion to decide whether to adhere to the guide on a case-by-case basis, as a person's available time and attention may be affected by many different factors such as whether they are in full-time employment and their other responsibilities.

A Director with multiple directorships is expected to ensure that sufficient attention is given to the affairs of the Manager in managing the assets and liabilities of SPH REIT for the benefit of Unitholders. In considering the nomination of Directors for appointment, the Board will take into account, amongst other things, the competing time commitments faced by Directors with multiple Board memberships. All Directors have confirmed that notwithstanding the number of their individual listed company board representations and other principal commitments, they were able to devote sufficient time and attention to the affairs of the Manager in managing the assets and liabilities of SPH REIT for the benefit of Unitholders. The Board is of the view that current commitments of each of its Directors are reasonable and each of the Directors is able to and has been able to carry out his/her duties satisfactorily.

The Board will review the composition of the Board and ARC periodically, taking into account the need for progressive renewal of the Board and each Director's competencies, commitment, contribution and performance.

The Board regularly reviews the balance and mix of expertise, skills and attributes of the Directors in order to meet the business and governance needs of the Manager, shortlists candidates with the appropriate profile for nomination or re-nomination and recommends them to the Board for approval. It looks out for suitable candidates to ensure continuity of Board talent. Some of the selection criteria used are integrity, independent mindedness, diversity of competencies, ability to commit time and effort to the Board, track record of good decision-making experience in high-performing companies and financial literacy.

The Board does not appoint alternate directors as recommended by Guideline 4.5 of the 2012 Code.

The Board may seek advice from external search consultants where necessary.

### **Review of Directors' independence**

The Board reviews annually whether a Director is considered an independent director based on the 2012 Code's definition of an "independent director" and guidance as to possible relationships, which might deem a Director to be independent. The Board has ascertained that for the period under review, the non-executive Directors, namely Dr Leong Horn Kee, Mr Soon Tit Koon and Mr David Chia, are independent.

### **Board Performance**

*Principle 5: Formal assessment of the effectiveness of the Board and contribution of each director*

The Board's performance is reviewed on an annual basis, based on performance criteria as agreed by the Board.

The Board has implemented a process for assessing the effectiveness of the Board as a whole, its Board Committee and for assessing the contribution by Directors to the effectiveness of the Board.

### **Board Evaluation Process**

This process involves having Directors complete a Questionnaire seeking their views on various aspects of Board performance, such as Board composition, access to information, process and accountability.

The Company Secretary compiles Directors' responses to the Questionnaire into a consolidated report. The report is discussed at the Board meeting.

For FY2015, the Questionnaire on the performance of the Board and Board Committees was reviewed in accordance with the best practices on board evaluation. The Questionnaire was completed by Directors, and reviewed by the Board. The performance of the Board was reviewed as a whole, taking into account the Board's composition and size, the Board's access to information, Board processes, Board accountability, standard of conduct and performance of the Board's principal functions and fiduciary duties, and guidance to and communication with the Management.

The Chairman also assessed the performance of individual Directors based on factors such as the Director's attendance, preparedness, candour, participation and contribution at Board meetings and industry and business knowledge.

### **Individual Director Evaluation**

As from FY2015, the Board also conducted a peer and self evaluation to assess the performance of individual Directors. Performance criteria include factors such as the Director's attendance, preparedness, candour, participation and contribution at Board meetings, industry and business knowledge, functional expertise, and commitment and dedication. The results of the peer and self evaluation are compiled by the Company Secretary and given to the Board Chairman, who assesses the performance of the individual Directors, and discuss with each individual Director if needed.

### **Succession Planning**

The Board regards succession planning as an important part of corporate governance and follows an internal process of succession planning for the Directors and CEO to ensure the progressive and orderly renewal of the Board.

### **Access to Information**

*Principle 6: Provision of complete, adequate and timely information prior to board meetings and on an on-going basis*

Management recognises that the flow of information on an accurate, complete, adequate and timely manner is critical for the Board to be effective in discharging its duties.

The Board is provided with quarterly financial accounts, other financial statements and progress reports of the business operations, as well as analysts' reports on SPH REIT. The quarterly financial results and annual budget are presented to the Board for approval. The monthly internal financial statements are made available to members of the Board. The financial results are also compared against the budgets, together with explanations given for significant variances for the reporting period. The Board also receives regular updates on the industry and technological developments. Such reports enable Directors to keep abreast of key issues and developments in the industry, as well as challenges and opportunities for SPH REIT.

As a general rule, board papers are sent to Directors at least one week in advance in order for Directors to be adequately prepared for the meeting. Senior Management attends Board meetings to answer any queries from the Directors. The Directors also have unrestricted access to the Company Secretary and Management at all times. Directors are entitled to request from Management and provided with such additional information as needed to make informed and timely decisions.

The Company Secretary works closely with the Chairman in setting the agenda for board meetings. He attends all Board meetings and prepares minutes of the Board proceedings. He ensures that Board procedures are followed and that applicable rules and regulations are complied with. Under the direction of the Chairman, the Company Secretary's responsibilities include ensuring good information flow within the Board and the ARC and between Management and Directors. The Company Secretary also organises orientation and training for Directors, as well as provides updates and advises Directors on all governance matters. The appointment and removal of the Company Secretary is subject to the approval of the Board.

Should Directors, whether as a group or individually, need independent professional advice relating to the Manager's affairs, the Company Secretary will appoint a professional advisor to render the relevant advice and keep the Board informed of such advice. The cost of such professional advice will be borne by the Manager.

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## Remuneration Matters

*Principle 7: Formal and transparent procedure for fixing remuneration packages of directors*

## Level and Mix of Remuneration

*Principle 8: Appropriate remuneration to attract, retain and motivate directors and key management*

## Disclosure on Remuneration

*Principle 9: Clear disclosure on remuneration policy, level and mix*

As the remuneration of Directors and staff of the Manager is paid by the Manager, and not by SPH REIT, the Manager does not consider it necessary to include information (other than as provided in the table below on the remuneration of the Directors and its key executives in this report. The Manager is not a listed entity and so it does not have a remuneration committee.

The Board has carefully considered the remuneration policies and practices of the Manager's holding company, Singapore Press Holdings Ltd ("SPH"), and believes that these are transparent and suitable for adoption by the Manager. SPH has a remuneration committee that determines and recommends to the SPH board of directors the framework of remuneration, terms of engagement, compensation and benefits for senior executives of SPH and its subsidiaries, which include the CEO and Management.

Directors' fees for FY2015 comprise a basic retainer fee as a Director, and an additional fee for serving on the ARC.

Non-executive Directors, who are full-time management staff of SPH, received Directors' fees which are payable by way of cash to SPH.

Name	Board Member S\$	Audit & Risk Committee S\$	Total Fees S\$
Leong Horn Kee	70,000 (Chairman)	–	70,000
Soon Tit Koon	40,000	20,000 (Chairman)	60,000
David Chia Chay Poh	40,000	13,000	53,000
Chan Heng Loon Alan*	40,000	–	40,000
Anthony Mallek*	40,000	13,000	53,000
Ginney Lim May Ling*	40,000	–	40,000
<b>Total Fees</b>			<b>S\$316,000</b>

\* Directors who are full-time SPH management staff.

There are no termination, retirement and post-employment benefits granted to Directors, the CEO or the CFO.

No employee of the Manager was an immediate family member of a Director or the CEO and whose remuneration exceeded \$50,000 during FY2015. "Immediate family member" refers to the spouse, child, adopted child, step-child, brother, sister and parent.

No employee share option schemes or share schemes have been implemented by SPH REIT.

## Accountability and Audit

*Principle 10: Board presents the company's performance, position and prospects*

The Board seeks to keep Unitholders updated on SPH REIT's financial performance, position and prospects through quarterly and full year financial reports within the time frame set out in the SGX-ST Listing Manual. In presenting the financial reports, the Board aims to provide Unitholders with a balanced, clear and understandable assessment of SPH REIT's performance, position and prospects.

The Manager is informed by a set of guidelines to ensure prompt compliance with statutory and regulatory requirements as well as adopts best practices in SPH REIT's business processes. This is imperative to maintaining Unitholders' confidence and trust in SPH REIT.

Management provides the Board on a regular basis with management accounts and such explanation and information as the Board may require from time to time, to enable the Board to effectively discharge its duties. In addition, an executive summary of SPH REIT's performance is furnished to the Board on a monthly basis. This report, which consists of key financial figures, keeps the Board informed of SPH REIT's performance and prospects.

### **Risk Management and Internal controls**

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

The ARC assists the Board in overseeing the risk governance of the Manager to ensure that the Manager maintains a sound system of risk management and internal controls to safeguard Unitholders' interests and SPH REIT's assets.

The Manager also determines the nature and extent of the risks which the Board is willing to accept in achieving its strategic objectives. Key risks, control measures and management actions are continually identified, reviewed and monitored by Management and each significant transaction is comprehensively analysed so that Management understands the risks involved before it is embarked upon.

The ARC is made up of two non-executive and independent Directors, namely, Mr Soon Tit Koon (Chairman) and Mr David Chia, and one non-executive Director, Mr Anthony Mallek. The ARC's objectives include the following:

- a. Oversee and advise the Board on SPH REIT's and the Manager's risk exposure, risk appetite and risk strategy;
- b. Review and guide Management in the formulation of SPH REIT's and the Manager's risk policies and in the execution of risk assessment processes and mitigation strategies; and
- c. Annually review the adequacy and effectiveness of SPH REIT's and the Manager's risk management and internal control systems, including financial, operational, compliance and information technology controls.

The ARC reviews risk appetite framework and risk tolerances for the enterprise risks. Using qualitative and quantitative measures, risks are calibrated so that balanced control processes are matched against the strategic objectives of SPH REIT's business.

The Manager has implemented a systematic risk assessment process to identify business risks and mitigating actions. The Manager's approach to risk management and internal control and the management of key business risks is set out in the "Risk Management Report" section from page 62 to 64 of this Annual Report.

The Manager has in place a risk management assessment framework which was established to facilitate the Board's assessment on the adequacy and effectiveness of the Manager's and SPH REIT's risk management system. The framework lays out the governing policies, processes and systems pertaining to each of the key risk areas of the Manager and SPH REIT. Assessments are made on the adequacy and effectiveness of the Manager's and SPH REIT's risk management system in managing each of these key risk areas.

The framework strengthens the Manager's capability to recognise risks and measures, and new challenges and opportunities from risk perspectives so as to add value to Management's decision-making, business planning, resource allocation and operational management.

The ARC and the Board will review the adequacy and effectiveness of the risk management system and internal controls on an annual basis.

The SPH's Internal Audit Division ("IAD") has an annual audit plan, which complements that of the external auditors. IAD's plan focuses on material internal control systems including financial, operational, IT and compliance controls, and risk management. IAD also assesses security and control in new systems development, recommends improvements to effectiveness and economy of operations, and contributes to risk management and corporate governance processes. Any material non-compliance or lapses in internal controls together with corrective measures are reported to the ARC.

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Based on the audit reports and the management controls in place, the ARC is satisfied that the internal control systems provide reasonable assurance that assets are safeguarded, that proper accounting records are maintained and financial statements are reliable. In the course of their statutory audit, the Manager's external auditors will highlight any material internal control weaknesses which have come to their attention in carrying out their annual audit, which is designed primarily to enable them to express their opinion on the financial statements. Such material internal control weaknesses noted during their audit, and recommendations, if any, by the external auditors are reported to the ARC.

The CEO and CFO at the financial year-end have provided a letter of assurance to the Board on the integrity of the financial records/statements, as well as the effectiveness of SPH REIT's risk management and internal control systems.

Such assurance includes the following:

- internal controls were established and maintained;
- material information relating to the Manager and SPH REIT is disclosed on a timely basis for the purposes of preparing financial statements; and
- SPH REIT's internal controls were adequate and effective as at the end of the financial year.

Based on the internal controls established and maintained by SPH REIT, work performed by the auditors, and regular reviews performed by Management, the Board and ARC are of the opinion that SPH REIT's risk internal and external management systems and internal controls were adequate and effective as at 31 August 2015 to address financial, operational, compliance and information technology risks, which SPH REIT considers relevant and material to its operations.

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

### CODE OF DEALINGS IN SECURITIES

The Manager has in place a Code of Dealings in SPH REIT units, which prohibits dealings in SPH REIT units by all Directors of the Manager, SPH and certain employees, within certain trading "black-out" periods. The "black-out" periods are two weeks prior to the announcement of SPH REIT's financial statements for each of the first three quarters of its financial year and one month prior to the announcement of SPH REIT's full year financial statements. Directors and employees are also reminded to observe insider trading laws at all times, and not to deal in SPH REIT units when in possession of any unpublished price-sensitive information regarding SPH REIT, or on short-term considerations. In compliance with Rule 1207(19) of the SGX-ST Listing Manual, the Manager issues quarterly reminders to its Directors, relevant officers and employees on the restrictions in dealings in SPH REIT units as set out above.

#### **Audit & Risk Committee**

*Principle 12: Establishment of an Audit & Risk Committee with written terms of reference*

The ARC currently comprises three members, all of whom are non-executive Directors and two of whom are independent Directors. The Chairman is Mr Soon Tit Koon and its members are Mr David Chia and Mr Anthony Mallek.

The Board is of the view that the members of the ARC have sufficient financial management expertise and experience to discharge the ARC's functions given their experience as directors and/or senior management in accounting, financial and industry areas. The ARC performs the functions as set out in the 2012 Code including the following:

- a) reviewing the annual audit plans and audit reports of external and internal auditors;
- b) reviewing the financial statements of SPH REIT before they are submitted to the Board for approval;
- c) reviewing the significant financial reporting issues so as to ensure the integrity of the financial statements of SPH REIT and any announcements relating to SPH REIT's financial performance;
- d) reviewing the auditors' evaluation of the system of internal accounting controls;
- e) reviewing and reporting to the Board the adequacy and effectiveness of the Manager's internal controls, including financial, operational, compliance and information technology controls;
- f) reviewing the scope, results and effectiveness of the internal audit function;



- g) reviewing the scope, results and effectiveness of the external audit, and the independence and objectivity of the external auditors annually, and the nature and extent of non-audit services supplied by the external auditors so as to maintain objectivity;
- h) making recommendations to the Board on the appointment, re-appointment and removal of the external auditors, and approving the remuneration and terms of engagement of the external auditors;
- i) reviewing the Manager's whistle-blowing policy, and to ensure that channels are open for possible improprieties to be raised and independently investigated, and for appropriate follow-up action to be taken;
- j) overseeing any internal investigation into cases of fraud and irregularities;
- k) reviewing interested person transactions;
- l) approving (or participating in) the hiring, removal, evaluation and compensation of the head of the internal audit function; and
- m) ensuring that the internal audit function is adequately resourced and has adequate support within the Company.

The ARC has the authority to investigate any matter within its terms of reference, full access to and co-operation by Management, and full discretion to invite any Director or executive officer to attend its meetings, and reasonable resources to enable it to discharge its functions properly.

The ARC has conducted an annual review of the performance of the external auditor and the volume of non-audit services to satisfy itself that the nature and extent of such services will not prejudice the independence and objectivity of the external auditors, before confirming their re-nomination. The aggregate amount of fees paid to the external auditors for FY2015 was S\$165,000, and the fee was solely for audit services.

The ARC meets with the external and internal auditors, in each case, without the presence of Management, at least once a year. The audit partner of the external auditors is rotated every five years, in accordance with the requirements of the SGX-ST Listing Manual.

Quarterly financial statements and the accompanying announcements are reviewed by the ARC before presentation to the Board for approval, to ensure the integrity of information to be released.

During the financial year, the ARC reviewed the quarterly financial statements prior to approving or recommending their release to the Board, as applicable; the significant financial reporting issues and judgments; the auditors' evaluation of the system of internal accounting controls; the adequacy and effectiveness of SPH REIT's internal controls, including financial, operational, compliance and information technology controls; the annual audit plan of the external and internal auditors and the results of the audits performed by them; and the list of interested person transactions. It also reviewed the scope, results and effectiveness of the internal audit and external audit functions; the independence and objectivity of the external auditors and the non-audit services rendered by them; and the re-appointment of the external auditors and its remuneration. Management's assessment of fraud risks, adequacy of the whistle-blower arrangements and whistle-blower complaints are reviewed by the ARC.

The ARC takes measures to keep abreast of the changes to accounting standards and issues which have a direct impact on financial statements, with training conducted by professionals or external consultants.

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

None of the ARC members is a former partner of the Manager's and SPH REIT's existing auditing firm.

## **CODE OF BUSINESS ETHICS AND EMPLOYEE CONDUCT POLICY**

The Manager has an existing Code of Business Ethics and Employee Conduct Policy ("Ethics Code"), to regulate the ethical conduct of its employees.

### **Whistleblowing Policy**

The Manager also has a Whistleblowing Policy & Procedure to allow staff and external parties such as suppliers, customers, contractors and other stakeholders, to raise concerns or observations in confidence to the Manager, about possible irregularities for independent investigation and appropriate follow up action to be taken. Such concerns include dishonesty, fraudulent acts, corruption, legal breaches and other serious improper conduct; unsafe work practices and any other conduct that may cause financial or non-financial loss to SPH REIT or damage to SPH REIT's reputation.

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The Whistleblowing Policy encourages staff and external parties to identify themselves whenever possible to facilitate investigations, but will also consider anonymous complaints, in certain circumstances. It makes available to staff and external parties the contact details of the Receiving Officer, who may also forward the concern to the respective superiors, CEO, ARC Chairman and/or Chairman.

## Internal Audit

*Principle 13: Establishment of an internal audit function that is independent of the functions it audits*

The internal audit function of the Manager is performed by IAD.

The role of the internal auditor is to assist the ARC to ensure that SPH REIT maintain a sound system of internal controls by reviewing the key controls and procedures and ensuring their effectiveness, undertaking investigations as directed by the ARC, and conducting regular audits of high risk areas.

IAD is staffed with eight audit executives, including the Head of Internal Audit. Most of the IAD staff have professional qualifications, and are members of the Institute of Internal Auditors, Inc. ("IIA"). Some are qualified IT auditors and/or Certified Fraud Examiners. All IAD staff have to adhere to a set of code of ethics adopted from The Institute of Internal Auditors, Inc. The Head of Internal Audit reports directly to the Chairman of the ARC on audit matters. IAD has unrestricted direct access to all the Manager's and SPH REIT's documents, records, properties and personnel. IAD has adopted the Standards for Professional Practice of Internal Auditing set by IIA and ensures staff competency through the recruitment of suitably qualified and experienced staff, provision of formal and on-the-job training, and appropriate resource allocation in engagement planning.

IAD's reports are submitted to the ARC for deliberation with copies of these reports extended to the relevant senior management personnel. In addition, IAD's findings and recommendations are discussed at the ARC meetings. To ensure timely and adequate closure of audit findings, the status of the implementation of the actions agreed by Management is tracked and discussed with the ARC. The ARC also reviews and approves the annual IA plans and resources to ensure that IAD has the necessary resources to adequately perform its functions.

## Unitholder Rights & Responsibilities

*Principle 14: Fair and equitable treatment of Unitholders*

## Communication with Unitholders

*Principle 15: Regular, effective and fair communication with Unitholders*

## Conduct of Unitholder Meetings

*Principle 16: Greater Unitholder participation at AGMs*

The Manager is committed to treating all Unitholders fairly and equitably and keeping all Unitholders and other stakeholders and analysts informed of the performance and changes in SPH REIT or its business which would be likely to materially affect the price or value of Units, on a timely and consistent basis, so as to assist Unitholders and investors in their investment decisions.

The Manager provides accurate and timely disclosure of material information on SGXNET. Unitholders are notified in advance of the date of release of SPH REIT's financial results through an announcement via SGXNET. The Manager also conducts regular briefings for analysts and media representatives, which will generally coincide with the release of SPH REIT's quarterly, half year and full year results. During these briefings, Management will review SPH REIT's most recent performance as well as discuss the business outlook for SPH REIT. In line with the Manager's objective of transparent communication, briefing materials are simultaneously released through the SGX-ST via SGXNET and also made available at SPH REIT's website.

All Unitholders are entitled to attend general meetings and are accorded the opportunity to participate effectively and vote at general meetings. All Unitholders are also informed of the rules, including voting procedures, governing such meetings.

SPH REIT prepares minutes of general meetings, which incorporates comments or queries from Unitholders and responses from the Board and Management. These minutes are available to Unitholders upon their request.

Resolutions will be, as far as possible, structured separately and may be voted on independently. All polls are conducted in the presence of independent scrutineers. The Manager will conduct electronic poll voting system to ensure greater transparency and efficiency in the voting procedures. The results of the electronic poll voting will be published instantaneously at the meeting.

All Directors and senior management are in attendance at the AGM to allow Unitholders the opportunity to air their views and ask Directors or Management questions regarding SPH REIT. The external auditors also attend the AGM to assist the Directors in answering any queries relating to the conduct of the audit and the preparation and content of the auditors' report.

The Trust Deed also allows any Unitholder to appoint proxies during his absence, to attend and vote on his behalf at the general meetings. In addition, Unitholders who hold shares through custodial institutions may attend the general meetings as observers.

## **DIRECTORS' ATTENDANCE AT BOARD AND AUDIT & RISK COMMITTEE** (for FY2015)

**Directors' attendance at Board and Audit & Risk Committee meetings**  
for the period from 01 September 2014 to 31 August 2015

### **Additional Information**

#### *Interested Person Transactions*

<b>Name of Director</b>	<b>Board</b>	<b>Audit &amp; Risk Committee</b>
<b>Leong Horn Kee</b> (Board Chairman) (Appointed on 10 June 2013)	4 out of 4	–
<b>David Chia Chay Poh</b> (Appointed on 10 June 2013)	4 out of 4	3 out of 3
<b>Soon Tit Koon</b> (Audit & Risk Committee Chairman) (Appointed on 10 June 2013)	4 out of 4	3 out of 3
<b>Chan Heng Loon Alan</b> (Appointed on 1 March 2013)	3 out of 4	–
<b>Anthony Mallek</b> (Appointed on 1 March 2013)	4 out of 4	3 out of 3
<b>Ginney Lim May Ling</b> (Appointed on 10 June 2013)	4 out of 4	–

All interested person transactions are undertaken only on normal commercial terms and the ARC regularly reviews all related party transactions to ensure compliance with the internal control system as well as with relevant provisions of the SGX-ST Listing Manual and Property Funds Appendix. In addition, the Trustee also has the right to review such transactions to ascertain that the Property Funds Appendix has been complied with.

In particular, the following procedures are in place:

1. transactions (either individually or as part of a series or if aggregated with other transactions involving the same interested person during the same financial year) equal to or exceeding S\$100,000 in value, but below 3.0% of SPH REIT's net tangible assets, will be subject to review and approval by the ARC;

## CORPORATE GOVERNANCE

2. transactions (either individually or as part of a series or if aggregated with other transactions involving the same interested person during the same financial year) equal to or exceeding 3.0% but below 5.0% of SPH REIT's net tangible assets, will be subject to the review and approval of the ARC, and SGX announcement requirements under the SGX-ST Listing Manual and Property Funds Appendix;
3. transactions (either individually or as part of a series or if aggregated with other transactions involving the same interested person during the same financial year) equal to or exceeding 5.0% of SPH REIT's net tangible assets will be subject to review and approval by the ARC which may, as it deems fit, request for advice on the transaction from independent sources or advisors, including the obtaining of valuations from professional valuers, as well as SGX announcement requirements under the SGX-ST Listing Manual and the Property Funds Appendix and such transactions would have to be approved by Unitholders at a meeting of Unitholders; and
4. the ARC's approval shall only be given if the transactions are on normal commercial terms and consistent with similar types of transactions undertaken by the Trustee with third parties which are unrelated to the Manager.

The interested person transactions undertaken by the Manager in FY2015 which are subject to disclosure requirements under the SGX-ST Listing Manual can be found on page 119 of this Annual Report.

### CONFLICTS OF INTEREST

The Manager has instituted the following procedures to deal with potential conflicts of interests issues:

- a. The Manager will not manage any other real estate investment trust ("REIT") which invests in the same types of properties as SPH REIT.
- b. All key executive officers work exclusively for the Manager and do not hold executive positions in other entities.
- c. At least one-third of the Board comprises independent directors. The Chairman of the Board is an independent director.
- d. All resolutions in writing of the Directors in relation to matters concerning SPH REIT must be approved by at least a majority of the Directors, including at least one independent Director.
- e. In respect of matters in which the Sponsor (Singapore Press Holdings Ltd) and/or its subsidiaries have an interest, direct or indirect, any nominees appointed by the Sponsor and/or its subsidiaries to the Board to represent their interests will abstain from deliberation and voting on such matters. For such matters, the quorum must comprise a majority of the independent directors of the Manager and must exclude nominee directors of the Sponsor and/or its subsidiaries. The Manager and the Property Manager (SPH Retail Property Management Services Pte Ltd) are indirect wholly-owned subsidiaries of the Sponsor.
- f. There is a separation of the roles of Chief Executive Officer and Chairman to ensure an appropriate balance of power, increased accountability and greater capacity of the Board for independent decision-making.
- g. Directors disclose promptly all interests in a transaction or proposed transaction to fellow Board members.
- h. The independence of each Director is reviewed upon appointment, and thereafter annually. A Director who has no relationship with the Manager, its related companies or its officers that could interfere, or be reasonably perceived to interfere, with the exercise of the Director's independent business judgment is considered independent.
- i. The ARC comprises two independent directors and one non-executive Director. Its Chairman is independent.
- j. All matters relating to Interested Person transactions are conducted in accordance with the procedures set out in the section on 'Interested Person Transactions'.

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