

Financial Statements

For the financial year ended 31 August 2018

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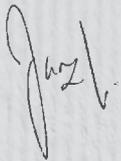
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Report of the Trustee

DBS Trustee Limited (the "Trustee") is under a duty to take into custody and hold the assets of SPH REIT (the "Trust") held by it in trust for the holders ("Unitholders") of units in the Trust (the "Units"). In accordance with the Securities and Futures Act, Chapter 289 of Singapore, its subsidiary legislation and the Code on Collective Investment Schemes, the Trustee shall monitor the activities of SPH REIT 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 9 July 2013 supplemented by the First Supplemental Deed on 7 November 2016 and Second Supplemental Deed on 6 January 2017 between the Manager and the Trustee in each annual accounting year and report thereon to Unitholders in an annual report.

To the best knowledge of the Trustee, the Manager has, in all material respects, managed the Trust during the financial year covered by these financial statements, set out on pages 105 to 145 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



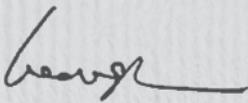
Jane Lim
Director

Singapore
11 October 2018

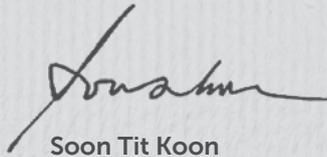
Statement by the Manager

In the opinion of the directors of SPH REIT Management Pte. Ltd., the accompanying financial statements of SPH REIT (the "Trust") set out on pages 105 to 145, comprising the Statement of Financial Position, Statement of Total Return, Distribution Statement, Statement of Changes in Unitholders' Funds, the Statement of Cash Flows, Portfolio Statement of the Trust, and Notes to the Financial Statements have been drawn up so as to present fairly, in all material respects, the financial position of the Trust as at 31 August 2018, and the total return, distributable income and changes in Unitholders' funds and cash flows of the Trust for the year ended on that date in accordance with the recommendations of *Statement of Recommended Accounting Practice 7 "Reporting Framework for Unit Trusts"* issued by the Institute of Singapore Chartered Accountants and the provisions of the Trust Deed. At the date of this statement, there are reasonable grounds to believe that the Trust will be able to meet their financial obligations as and when they materialise.

For and on behalf of the Manager,
SPH REIT Management Pte. Ltd.



Leong Horn Kee
Chairman



Soon Tit Koon
Director

Singapore
11 October 2018

Independent Auditors' Report

To the Unitholders of SPH REIT

(Constituted in the Republic of Singapore pursuant to a Trust Deed dated 9 July 2013)

Opinion

We have audited the financial statements of SPH REIT (the "Trust"), which comprise the Statement of Financial Position and Portfolio Statement of the Trust as at 31 August 2018, the Statement of Total Return, Distribution Statement, Statement of Changes in Unitholders' Funds and the Statement of Cash Flows for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 105 to 145.

In our opinion, the accompanying financial statements of the Trust present fairly, in all material respects, the financial position and portfolio holdings of the Trust as at 31 August 2018 and the total return, distributable income, changes in unitholders' funds and cash flows of the Trust for the year then ended on that date in accordance with the recommendations of Statement of Recommended Accounting Practice 7 *Reporting Framework for Unit Trusts* ("RAP 7") 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 Trust 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 period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Valuation of investment properties

(Refer to Note 5 and 22(f) to the financial statements)

Risk:

Investment properties represent the single largest category of assets on the balance sheet, at S\$3.4 billion as at 31 August 2018.

These investment properties are stated at their fair values based on independent external valuations.

The valuation process involves significant judgement in determining the appropriate valuation methodology to be used, and in estimating the underlying assumptions to be applied. The valuations are highly sensitive to key assumptions applied i.e. a small change in the assumptions can have a significant impact to the valuation.

Independent Auditors' Report

To the Unitholders of SPH REIT

(Constituted in the Republic of Singapore pursuant to a Trust Deed dated 9 July 2013)

Our response:

We evaluated the qualifications and competence of the external valuers. We also read the terms of engagement of the valuers with the Trust to determine whether there were any matters that might have affected their objectivity or limited the scope of their work.

We considered the valuation methodologies used against those applied by other valuers for similar property types. We tested the integrity of inputs of the projected cash flows used in the valuation to supporting leases and other documents. We challenged the key assumptions used in the valuation by comparing them against historical rates and available industry data, taking into consideration comparability and market factors.

We also assessed whether the disclosures in the financial statements appropriately described the inherent degree of subjectivity and key assumptions in the valuations.

Our findings:

The valuer is a member of recognised professional bodies for valuers and have confirmed their own independence in carrying out their work.

The valuation methodologies adopted by the valuer are in line with generally accepted market practices and the key assumptions used are within range of available market data. The disclosures in the financial statements are appropriate in their description of the inherent subjectivity and estimation involved.

Other information

SPH REIT Management Pte Ltd, the Manager of the Trust ("the Manager") is responsible for the other information contained in the annual report. Other information is defined as all information in the annual report other than the financial statements and our auditors' report thereon. We have obtained all other information prior to the date of this auditors' report.

Our opinion on the financial statements does not cover the other information and we 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 when it becomes available 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, 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.

Independent Auditors' Report

To the Unitholders of SPH REIT

(Constituted in the Republic of Singapore pursuant to a Trust Deed dated 9 July 2013)

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 RAP 7 issued by the Institute of Singapore Chartered Accountants, and for such internal control 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 Trust'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 Trust or to cease operations of the Trust, or has no realistic alternative but to do so.

The Manager's responsibilities include overseeing the Trust's financial reporting process.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with SSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
- Obtain an understanding of internal controls relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Trust'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 Manager's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Trust'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 Trust 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.

Independent Auditors' Report

To the Unitholders of SPH REIT

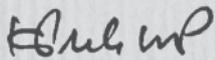
(Constituted in the Republic of Singapore pursuant to a Trust Deed dated 9 July 2013)

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 period and are therefore the key audit matters. We describe these matters in our auditors' report unless the law or regulations preclude public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditors' report is Lee Sze Yeng.



KPMG LLP

Public Accountants and Chartered Accountants

Singapore

11 October 2018

Statement of Financial Position

As at 31 August 2018

	Note	2018 S\$'000	2017 S\$'000
Non-current assets			
Plant and equipment	4	682	843
Investment properties	5	3,368,300	3,278,000
		3,368,982	3,278,843
Current assets			
Intangible asset	6	–	1,500
Trade and other receivables	7	3,087	3,353
Cash and cash equivalents	8	35,965	63,005
		39,052	67,858
Total assets		3,408,034	3,346,701
Non-current liabilities			
Borrowings	9	683,261	528,004
Derivative financial instruments	10	2,814	7,365
Trade and other payables	11	32,622	30,147
		718,697	565,516
Current liabilities			
Borrowings	9	209,813	319,423
Derivative financial instruments	10	–	621
Trade and other payables	11	40,577	40,081
		250,390	360,125
Total liabilities		969,087	925,641
Net assets attributable to Unitholders		2,438,947	2,421,060
Represented by:			
Unitholders' funds		2,438,947	2,421,060
Units in issue ('000)	13	2,571,845	2,556,106
Net asset value per unit (\$)		0.95	0.95

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

Statement of Total Return

For the financial year ended 31 August 2018

	Note	2018 S\$'000	2017 S\$'000
Gross revenue	15	211,802	212,756
Property operating expenses	16	(45,806)	(44,668)
Net property income		165,996	168,088
Income support		624	1,186
Amortisation of intangible asset	6	(624)	(1,186)
Write down of intangible asset	6	(876)	(4,349)
Manager's management fees	17	(16,688)	(16,708)
Trustee's fees		(487)	(483)
Other trust expenses	18	(1,133)	(1,096)
Finance income		778	744
Finance costs	19	(24,506)	(23,944)
Net income		123,084	122,252
Fair value change on investment properties	5	14,772	34,904
Total return for the year before taxes and distribution		137,856	157,156
Less: income tax	20	–	–
Total return for the year after taxes and before distribution		137,856	157,156
Earnings per unit (cents)			
Basic and diluted	21	5.36	6.14

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

Distribution Statement

For the financial year ended 31 August 2018

	2018 S\$'000	2017 S\$'000
Income available for distribution to Unitholders at beginning of the year	38,304	37,916
Net income	123,084	122,252
Add: Net tax adjustments (Note A)	19,226	18,976
Total income available for distribution to Unitholders for the year	180,614	179,144
Distribution to Unitholders		
– Distribution of 1.41 cents per unit for the period from 1 June 2016 to 31 August 2016	–	(35,909)
– Distribution of 1.34 cents per unit for the period from 1 September 2016 to 30 November 2016	–	(34,182)
– Distribution of 1.40 cents per unit for the period from 1 December 2016 to 28 February 2017	–	(35,743)
– Distribution of 1.37 cents per unit for the period from 1 March 2017 to 31 May 2017	–	(35,006)
– Distribution of 1.42 cents per unit for the period from 1 June 2017 to 31 August 2017	(36,297)	–
– Distribution of 1.34 cents per unit for the period from 1 September 2017 to 30 November 2017	(34,380)	–
– Distribution of 1.40 cents per unit for the period from 1 December 2017 to 28 February 2018	(35,947)	–
– Distribution of 1.37 cents per unit for the period from 1 March 2018 to 31 May 2018	(35,205)	–
	(141,829)	(140,840)
Income available for distribution to Unitholders at end of the year	38,785	38,304
Note A – Net tax adjustments		
Non-tax deductible items:		
– Manager's management fees	16,688	14,308
– Trustee's fees	487	483
– Amortisation of intangible asset	624	1,186
– Amortisation of upfront fee for loan facility	1,552	1,540
– Other items	(125)	1,459
Net tax adjustments	19,226	18,976

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

Statement of Changes in Unitholders' Funds

For the financial year ended 31 August 2018

	2018 S\$'000	2017 S\$'000
Balance as at beginning of year	2,421,060	2,388,532
Operations		
Total return for the year	137,856	157,156
Hedging reserve		
Effective portion of changes in fair value of cash flow hedges [Note 12]	5,172	1,904
Unitholders' transactions		
Distribution to unitholders	(141,829)	(140,840)
Manager's fee paid/payable in units	16,688	14,308
	(125,141)	(126,532)
Balance as at end of year	2,438,947	2,421,060

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

Statement of Cash Flows

For the financial year ended 31 August 2018

	2018 S\$'000	2017 S\$'000
Cash flows from operating activities		
Total return for the year	137,856	157,156
Adjustments for:		
Fair value change on investment properties	(14,772)	(34,904)
Manager's fee paid/payable in units	16,688	14,308
Depreciation of plant and equipment	212	211
Finance income	(778)	(744)
Finance costs	24,506	23,944
Amortisation of intangible asset	624	1,186
Write down of intangible asset	876	4,349
Straight-line rental adjustments	(251)	–
Operating cash flow before working capital changes	164,961	165,506
Changes in operating assets and liabilities		
Trade and other receivables	478	2,475
Trade and other payables	(599)	(2,781)
Net cash from operating activities	164,840	165,200
Cash flows from investing activities		
Acquisition of investment property	(65,081)	–
Additions to investment properties	(6,911)	(7,027)
Purchase of plant and equipment	(24)	(45)
Interest received	817	803
Net cash used in investing activities	(71,199)	(6,269)
Cash flows from financing activities		
Payment of transaction costs related to borrowing	(860)	(18)
Proceeds from bank loan (net of transaction costs)	44,933	–
Distribution to unitholders	(141,829)	(140,840)
Interest paid	(22,925)	(22,450)
Net cash used in financing activities	(120,681)	(163,308)
Net decrease in cash and cash equivalents	(27,040)	(4,377)
Cash and cash equivalents at beginning of the year	63,005	67,382
Cash and cash equivalents at end of the year	35,965	63,005

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

Portfolio Statement

For the financial year ended 31 August 2018

Description of Property	Location	Tenure of Land	Term of Lease
Paragon	290 Orchard Road, Singapore 238859	Leasehold	99 years, commencing on 24 July 2013 (Listing date)
The Clementi Mall	3155 Commonwealth Avenue West, Singapore 129588	Leasehold	99 years, commencing on 31 August 2010
The Rail Mall ¹	380 to 400 & 422 to 484 (Even Nos) Upper Bukit Timah Road, Singapore 678040 to 678050 & 678051 to 678087	Leasehold	99 years, commencing on 18 March 1947

Portfolio of investment properties

Other assets and liabilities (net)

Unitholders' funds

The carrying amount of the investment properties were based on independent valuations as at 31 August 2018 and 31 August 2017 conducted by Edmund Tie & Company (SEA) Pte Ltd ("ETC") and Jones Lang LaSalle Property Consultants Pte Ltd ("JLL") respectively. ETC has appropriate professional qualifications and experience in the locations and category of the properties being valued. The valuations of the investment properties were based on the discounted cash flow and capitalisation methods. The net change in fair value has been recognised in the Statement of Total Return.

¹ The acquisition of The Rail Mall was completed on 28 June 2018.

Portfolio Statement

For the financial year ended 31 August 2018

Remaining Term of Lease 31 August 2018	Occupancy Rate as at 31 August		At Valuation 31 August		Percentage of Unitholders' funds 31 August	
	2018 (%)	2017 (%)	2018 S\$'000	2017 S\$'000	2018 (%)	2017 (%)
94 years	99.6	100.0	2,719,000	2,695,000	111	111
91 years	100.0	100.0	586,000	583,000	24	24
28 years	94.8	–	63,300	–	3	–
			3,368,300	3,278,000	138	135
			(929,353)	(856,940)	(38)	(35)
			2,438,947	2,421,060	100	100

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

Notes to the Financial Statements

For the financial year ended 31 August 2018

These notes form an integral part of and should be read in conjunction with the financial statements.

1. GENERAL INFORMATION

SPH REIT (the "Trust") is a Singapore-domiciled unit trust constituted pursuant to the trust deed dated 9 July 2013 supplemented by the First Supplemental Deed on 7 November 2016 and Second Supplemental Deed on 6 January 2017 (the "Trust Deed") between SPH REIT 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 Trust held by it in trust for the holders ("Unitholders") of units in the Trust (the "Units").

The Trust was formally admitted to the Official List of the Singapore Exchange Securities Trading Limited ("SGX-ST") on 24 July 2013 and was included under the Central Provident Fund ("CPF") Investment Scheme on 17 July 2013.

The principal activity of the Trust is to invest, directly or indirectly, in a portfolio of income-producing real estate which is used primarily for retail purposes in Asia-Pacific, as well as real estate-related assets with the primary objective of providing Unitholders with regular and stable distributions and sustainable long-term growth.

The Trust has entered into several service agreements in relation to management of the Trust and its property operations. The fee structures for these services are as follows:

(a) Trustee's fees

The Trustee's fee shall not exceed 0.1% per annum of the value of all the assets of the Trust ("Deposited Property") (subject to a minimum of \$15,000 per month) and shall be payable out of the Deposited Property monthly in arrears. The Trustee is also entitled to reimbursement of expenses incurred in the performance of its duties under the Trust Deed.

(b) Manager's management fees

The Manager is entitled under the Trust Deed to the following management fees:

- (i) a base fee of 0.25% per annum of the value of Deposited Property; and
- (ii) an annual performance fee of 5.0% per annum of the Net Property Income (as defined in the Trust Deed)

The management fees payable to the Manager will be paid in the form of cash and/or units. The Management fees payable in units will be computed at the volume weighted average price for a unit for all trades on the SGX-ST in the ordinary course of trading on the SGX-ST for the period of 10 Business Days (as defined in the Trust Deed) immediately preceding the end date of the relevant financial quarter, to which such fees relate. The base fees are payable quarterly in arrears. The annual performance fees are payable annually in arrears.

Notes to the Financial Statements

For the financial year ended 31 August 2018

1. GENERAL INFORMATION (CONT'D)

(b) Manager's management fees (Cont'd)

For the period from 24 July 2013 (listing date) to 28 February 2017 and from 1 September 2017 to 31 August 2018, the Manager has elected to receive 100% of management fees in units.

The Manager has elected for partial payment of management fees in cash for the half year from 1 March 2017 to 31 August 2017.

For all acquisitions or disposals of properties or investments, the Manager is entitled to receive acquisition fee at 0.75% of the purchase price for acquisition from related parties and 1.0% for all other cases and a divestment fee of 0.5% of the sale price.

(c) Property Manager's management fees

(i) Property management fees

Under the Property Management Agreement, SPH Retail Property Management Services Pte. Ltd. (the "Property Manager") is entitled to receive the following fees:

- 2.0% per annum of Gross Revenue for the relevant property;
- 2.0% per annum of the Net Property Income for the relevant property (calculated before accounting for the property management fee in that financial period); and
- 0.5% per annum of the Net Property Income for the relevant property (calculated before accounting for the property management fee in that financial period) in lieu of leasing commissions otherwise payable to the Property Manager and/or third party agents.

The property management fees are payable to the Property Manager in the form of cash and/or units. For the period from 24 July 2013 (listing date) to 31 August 2018, the property management fees are paid in cash.

(ii) Project management fees

The Property Manager is entitled to receive project management fees ranging between 1.25% and 5% of the total construction cost, for the development or redevelopment, the refurbishment, retrofitting and renovation works on or in respect of a property. The project management fees are payable to the Property Manager in the form of cash and/or units.

Notes to the Financial Statements

For the financial year ended 31 August 2018

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

The financial statements have been prepared in accordance with the *Statement of Recommended Accounting Practice* ("RAP") 7 "Reporting Framework for Unit Trusts" revised and issued by the Institute of Singapore Chartered Accountants, and 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 the accounting policies adopted to generally comply with the recognition and measurement principles of Singapore Financial Reporting Standards.

The adoption of this revised RAP 7 did not result in substantial changes to the accounting policies of the Trust and had no material effect on the amounts reported for the current or prior years.

The following are the new or revised FRS that are relevant to the Trust:

- Amendments to FRS 7 *Statement of Cash Flows – Disclosure Initiative*

From 1 September 2017, as a result of the amendments to FRS 7, the Trust has provided additional disclosure in relation to the changes in liabilities arising from financing activities for the year ended 31 August 2018 (see note 9). Comparative information has not been presented.

The adoption of the above new or amended FRS has not resulted in any substantial changes to the Trust's accounting policies nor has any significant impact on these financial statements.

The Trust's financial statements are prepared on a going concern basis. As at 31 August 2018, the net current liabilities are primarily due to certain bank loans due on 2019. The Trust is in the process of reviewing refinancing options for the loans. Refer to note 9 – Borrowings.

The accounting policies set out below have been applied consistently by the Trust.

The financial statements have been prepared on the historical cost basis, except as disclosed in the accounting policies below.

(b) Functional and presentation currency

The financial statements are presented in Singapore dollars ("presentation currency"), which is the functional currency of the Trust. All financial information presented in Singapore dollars has been rounded to the nearest thousand, unless otherwise stated.

(c) Currency translation

Transactions in a currency other than the functional currency ("foreign currency") are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Currency translation gains and losses resulting from settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at the closing rates at the reporting date are taken to the statement of total return. Non-monetary items measured at fair values in foreign currencies are translated using the exchange rates at the date when the fair values are determined. Non-monetary items that are measured in terms of historical cost are translated using the exchange rate at the date of the transaction.

Notes to the Financial Statements

For the financial year ended 31 August 2018

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(d) Investment properties

Investment properties comprise office and retail buildings that are held for long-term rental yields. Investment properties are initially recognised at cost and subsequently measured at fair value. Any gains or losses arising from the changes in their fair values are taken to the statement of total return.

Investment properties are subject to renovations or improvements at regular intervals. The cost of major renovations and improvements is capitalised and the carrying amounts of the replaced components are written-off to the statement of total return. The cost of maintenance, repairs and minor improvements is charged to the statement of total return when incurred.

Fair values are 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.

On disposal of an investment property, the difference between the net disposal proceeds and its carrying amount is taken to the statement of total return.

(e) Plant and equipment

(i) Measurement

Plant and equipment are initially recognised at cost and subsequently carried at cost less accumulated depreciation and accumulated impairment losses. The cost of an item of plant and equipment initially recognised includes its purchase price and any cost that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

(ii) Depreciation

Depreciation is calculated using the straight-line method to allocate the depreciable amounts over the expected useful lives of the assets. The estimated useful lives for this purpose are:

Plant and equipment	3 – 10 years
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The residual values, estimated useful lives and depreciation method of plant and equipment are reviewed, and adjusted as appropriate, at each reporting date. The effects of any revision are recognised in the statement of total return when the changes arise.

No depreciation is charged on capital work-in-progress.

Notes to the Financial Statements

For the financial year ended 31 August 2018

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(e) Plant and equipment (Cont'd)

(iii) Subsequent expenditure

Subsequent expenditure relating to plant and equipment that has already been recognised is added to the carrying amount of the asset only when it is probable that future economic benefits associated with the item will flow to the Trust and the cost of the item can be measured reliably. All other repair and maintenance expenses are recognised in the statement of total return when incurred.

(iv) Disposal

On disposal of an item of plant and equipment, the difference between the net disposal proceeds and its carrying amount is taken to the statement of total return.

(f) Intangible assets

Intangible asset relating to income support from the vendors of The Clementi Mall is measured initially at cost. Following initial recognition, the intangible asset is measured at cost less any accumulated amortisation and accumulated impairment losses.

The intangible asset is amortised in the statement of total return on a systematic basis over its estimated useful life.

(g) Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents include cash on hand and deposits with financial institutions which are subject to an insignificant risk of change in value.

(h) Financial assets

(i) Classification

The Trust classifies its financial assets as loans and receivables. The classification depends on the nature of the assets and the purpose for which the assets were acquired. The Manager determines the classification of its financial assets on initial recognition.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are presented as current assets, except for those expected to be realised later than twelve months after the reporting date which are presented as non-current assets. Loans and receivables comprise bank balances and fixed deposits and trade and other receivables.

Notes to the Financial Statements

For the financial year ended 31 August 2018

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(h) Financial assets (Cont'd)

(ii) Recognition and derecognition

Purchases and sales of financial assets are recognised on trade-date – the date on which the Trust commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Trust has transferred substantially all risks and rewards of ownership. On disposal of a financial asset, the difference between the net sale proceeds and its carrying amount is recognised in the statement of total return. Any amount in the fair value reserve relating to that asset is also transferred to the statement of total return.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Trust has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

(iii) Initial measurement

Financial assets are initially recognised at fair value plus transaction costs.

(iv) Subsequent measurement

Loans and receivables are subsequently carried at amortised cost using the effective interest method less accumulated impairment losses.

(v) Impairment

The Trust assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired and recognises an allowance for impairment when such evidence exists.

Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are objective evidence that these financial assets are impaired. The carrying amount of these assets is reduced through the use of an impairment allowance account which is calculated as the difference between the carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The amount of the allowance for impairment is recognised in the statement of total return. When the asset becomes uncollectible, it is written-off against the allowance account. Subsequent recoveries of amounts previously written-off are recognised in the statement of total return.

The allowance for impairment loss account is reduced through the statement of total return in a subsequent period when the amount of impairment loss decreases and the related decrease can be objectively measured. The carrying amount of the asset previously impaired is increased to the extent that the new carrying amount does not exceed the amortised cost, had no impairment been recognised in prior periods.

Notes to the Financial Statements

For the financial year ended 31 August 2018

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(i) Derivative financial instruments and hedging activities

Derivative financial instruments are used to manage exposure to interest rate risks arising from financing activities. Derivative financial instruments taken up by the Trust are not used for trading purposes.

A derivative financial instrument is initially recognised at its fair value on the date the derivative contract is entered into and is subsequently carried at its fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

The Trust designates its derivatives for hedging purposes as either hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge), or hedges of highly probable forecast transactions (cash flow hedge).

The Trust documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategies for undertaking various hedge transactions. The Trust also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of the hedged items.

The carrying amount of a derivative designated as a hedge is presented as a non-current asset or liability if the remaining expected life of the hedged item is more than twelve months, and as a current asset or liability if the remaining expected life of the hedged item is less than twelve months.

(i) Cash flow hedge

The Trust has entered into interest rate swaps that are cash flow hedges for the Trust's exposure to interest rate risk on its borrowing. These contracts entitle the Trust to receive interest at floating rates on notional principal amounts and oblige the Trust to pay interest at fixed rates on the same notional principal amounts, thus allowing the Trust to raise borrowing at floating rates and swap them into fixed rates.

The fair value changes on the effective portion of these interest rate swaps are recognised in the statement of unitholders' funds and transferred to the statement of total return in the periods when the interest expense on the borrowing is recognised in the statement of total return. The gain or loss relating to the ineffective portion is recognised immediately in the statement of total return.

(ii) Derivatives that do not qualify for hedge accounting

Changes in the fair value of derivative instruments that do not qualify for hedge accounting are recognised immediately in the statement of total return.

Notes to the Financial Statements

For the financial year ended 31 August 2018

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(j) Fair value estimation of financial assets and liabilities

The fair values of financial instruments traded in active markets (such as exchange-traded and over-the-counter securities and derivatives) are based on quoted market prices as at the reporting date. The quoted market prices used for financial assets are the current bid prices; the appropriate quoted market prices for financial liabilities are the current asking prices.

The fair values of financial instruments that are not traded in an active market are determined by using valuation techniques. The Trust uses a variety of methods and makes assumptions that are based on market conditions existing at each reporting date. Where appropriate, quoted market prices or dealer quotes for similar instruments are used. Valuation techniques, such as discounted cash flow analysis, are also used to determine the fair values of the financial instruments.

The fair values of interest rate swaps are calculated as the present value of the estimated future cash flows discounted at actively quoted interest rates.

(k) Impairment of non-financial assets

- Intangible asset
- Plant and equipment

Intangible asset, Plant and equipment are tested for impairment whenever there is any objective evidence or indication that these assets may be impaired.

For the purpose of impairment testing, recoverable amount (i.e. the higher of the fair value less cost to sell and value-in-use) is determined on an individual asset basis unless the asset does not generate cash inflows that are largely independent of those from other assets. If this is the case, the recoverable amount is determined for the cash-generating-units ("CGU") to which the asset belongs.

An impairment loss is recognised when the carrying amount of the asset (or CGU) exceeds the recoverable amount of the asset (or CGU). Recoverable amount of the asset (or CGU) is the higher of the asset's (or CGU's) fair value less cost to sell and value-in-use.

An impairment loss for an asset is reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of this asset is increased to its revised recoverable amount, provided that this amount does not exceed the carrying amount that would have been determined (net of any accumulated amortisation or depreciation) had no impairment loss been recognised for the asset in prior years. A reversal of impairment loss for an asset is recognised in the statement of total return.

(l) Units and unit issuance expenses

Unitholders' funds represent the Unitholders' residual interest in the Trust's net assets upon termination and is classified as equity.

Incremental costs directly attributable to the issue of units are recognised as a deduction from Unitholders' funds.

Notes to the Financial Statements

For the financial year ended 31 August 2018

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(m) Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and rendering of services in the ordinary course of the Trust's activities. Revenue is presented, net of goods and services tax, rebates, discounts and returns.

The Trust recognises revenue when the amount of revenue and related cost can be reliably measured, when it is probable that the collectability of the related receivables is reasonably assured and when the specific criteria for each of the following are met as follows:

- (i) Revenue from rental and rental-related services is recognised on straight-line basis over the lease term. Lease incentives granted are recognised as an integral part of the total rental income.
- (ii) Interest income is recognised using the effective interest method.

(n) Income taxes

Current tax for current and prior years is recognised at the amount expected to be paid to (or recovered from) the tax authorities, using the tax rates and tax laws that have been enacted or substantively enacted by the reporting date.

Deferred tax is recognised for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements, except when the deferred tax arises from the initial recognition of an asset or liability in a transaction that is not a business combination and at the time of the transaction, affects neither accounting nor taxable returns.

Deferred tax is measured:

- (i) at the tax rates that are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted by the reporting date; and
- (ii) based on the tax consequence that will follow from the manner in which the Trust expects, at the reporting date, to recover or settle the carrying amounts of its assets and liabilities.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences and tax losses can be utilised.

Current and deferred taxes are recognised as income or expense in the statement of total return, except to the extent that the tax arises from a transaction which is recognised directly in equity.

The Inland Revenue Authority of Singapore ("IRAS") has issued a tax ruling on the income tax treatment of the Trust. Subject to meeting the terms and conditions of the tax ruling which includes a distribution of at least 90% of its taxable income, the Trust will not be assessed for tax on the portion of its taxable income that is distributed to Unitholders. Any portion of taxable income that is not distributed to Unitholders will be taxed at the prevailing corporate tax rate.

Notes to the Financial Statements

For the financial year ended 31 August 2018

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(n) Income taxes (Cont'd)

In the event that there are subsequent adjustments to the taxable income when the actual taxable income of the Trust is finally agreed with the IRAS, such adjustments are taken up as an adjustment to the amount distributed for the next distribution following the agreement with the IRAS.

The distributions made by the Trust out of its taxable income are subject to tax in the hands of Unitholders, unless they are exempt from tax on the Trust's distributions (the "tax transparency ruling"). The Trust is required to withhold tax at the prevailing corporate tax rate on the distributions made by the Trust except:

- where the beneficial owners are individuals or Qualifying Unitholders, the Trust will make the distributions to such Unitholders without withholding any income tax; and
- where the beneficial owners are foreign non-individual investors or where the Units are held by nominee Unitholders who can demonstrate that the Units are held for beneficial owners who are foreign non-individual investors, the Trust will withhold tax at a reduced rate of 10% from the distributions.

A "Qualifying Unitholder" is a Unitholder who is:

- an individual;
- a company incorporated and tax resident in Singapore;
- a body of persons, other than a company or a partnership, incorporated or registered in Singapore (for example, a town council, a statutory board, a registered charity, a registered co-operative society, a registered trade union, a management corporation, a club and a trade and industry association); or
- a Singapore branch of a foreign company which has presented a letter of approval from the IRAS granting a waiver from tax deduction at source in respect of distributions from SPH REIT.

A "Qualifying Non-resident Non-individual Unitholder" is a person who is neither an individual nor a resident of Singapore for income tax purposes and:

- who does not have a permanent establishment in Singapore; or
- who carries on any operation in Singapore through a permanent establishment in Singapore, where the funds used by that person to acquire the Units are not obtained from that operation.

The above tax transparency ruling does not apply to gains from sale of real properties. Such gains, if they are considered as trading gains, are assessable to tax on the Trust. Where the gains are capital gains, the Trust will not be assessed to tax and may distribute the capital gains to Unitholders without having to deduct tax at source.

Any distributions made by the Trust to the Unitholders out of tax-exempt income and taxed income would be exempt from Singapore income tax in the hands of all Unitholders, regardless of their corporate or residence status.

Notes to the Financial Statements

For the financial year ended 31 August 2018

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(o) Distribution policy

The Trust's distribution policy is to distribute at least 90% of its specified taxable income, comprising rental and other property related income from its business of property letting, interest income and top-up payments from income support and after deducting allowable expenses and applicable tax allowances. The actual level of distribution will be determined at the Manager's discretion, taking into consideration the Trust's capital management and funding requirements.

(p) Expenses

(i) Trustee's fees

Trustee's fees are recognised on an accrual basis using the applicable formula stipulated in Note 1(a).

(ii) Manager's management fees

Manager's management fees are recognised on an accrual basis using the applicable formula stipulated in Note 1(b).

(iii) Property operating expenses

Property operating expenses are recognised on an accrual basis. Included in property operating expenses are property management fees which are based on the applicable formula stipulated in Note 1(c).

(iv) Borrowing costs

Borrowing costs are recognised in the statement of total return using the effective interest method.

(q) Borrowing

Borrowing is initially recognised at fair value (net of transaction costs incurred) and subsequently carried at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is taken to the statement of total return over the year of the borrowing using the effective interest method.

Borrowing is presented as a current liability unless the Trust has an unconditional right to defer settlement for at least twelve months after the reporting date, in which case they are presented as non-current liabilities.

Notes to the Financial Statements

For the financial year ended 31 August 2018

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(r) Trade and other payables

Trade and other payables represent liabilities for goods and services provided to the Trust prior to the end of financial year which are unpaid. They are classified as current liabilities if payment is due within one year. If not, they are presented as non-current liabilities.

Trade and other payables are initially carried at fair value, and subsequently carried at amortised cost using the effective interest method.

The Trust derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

(s) Provisions

Provisions are recognised when the Trust has a present legal or constructive obligation as a result of past events, and it is more likely than not that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount can be made.

(t) Operating leases – as a lessor

Leases where the Trust retains substantially all risks and rewards incidental to ownership are classified as operating leases. Assets leased out under operating leases are included in investment properties. Rental income from operating leases is recognised in the statement of total return on a straight-line basis over the lease term. Lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease. Contingent rents are recognised as income in the statement of total return when earned.

(u) Segment reporting

Segmental information is reported in a manner consistent with the internal reporting provided to the management of the Manager who conducts a regular review for allocation of resources and assessment of performance of the operating segments.

3. CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS

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

Estimates, assumptions and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about assumptions and estimation uncertainties which have significant effect on amounts recognised relates to the fair value of investment properties which is based on independent professional valuations, determined using valuation techniques and assumptions set out in (Note 5).

Notes to the Financial Statements

For the financial year ended 31 August 2018

4. PLANT AND EQUIPMENT

	2018 S\$'000	2017 S\$'000
Cost		
Beginning of financial year	1,522	1,447
Additions	51	105
Disposals/Write-offs	–	(30)
End of financial year	1,573	1,522
Accumulated depreciation		
Beginning of financial year	679	497
Depreciation charge	212	211
Disposals/Write-offs	–	(29)
End of financial year	891	679
Net book value		
Beginning of financial year	843	950
End of financial year	682	843

5. INVESTMENT PROPERTIES

	2018 S\$'000	2017 S\$'000
Beginning of financial year	3,278,000	3,230,000
Acquisition of investment property ¹	65,955	–
Additions	9,573	13,096
Fair value change	14,772	34,904
End of financial year	3,368,300	3,278,000

¹ Included acquisition fees and acquisition related expenses of S\$2.717 million.

The fair value of the investment properties as at the reporting date was stated based on independent professional valuations by Edmund Tie & Company (SEA) Pte Ltd (2017: Jones Lang LaSelle Property Consultants Pte. Ltd.). In determining the fair value, the valuers have used discounted cash flow analysis and capitalisation approach. The discounted cash flow analysis involves an assessment of the annual net income streams over an assumed investment horizon and discounting these net income streams with an internal rate of return. The capitalisation approach estimates the gross rent income at a mature sustainable basis from which total expenses have been deducted and net income capitalised at an appropriate rate. Details of valuation techniques and inputs used are disclosed in Note 22(f).

The net change in fair value of the investment properties has been recognised in the statement of total return in accordance with the Trust's accounting policies.

The Paragon on Orchard Road, with a carrying value of S\$2,719 million (2017: S\$2,695 million), is mortgaged to banks as security for the term loan [Note 9].

Notes to the Financial Statements

For the financial year ended 31 August 2018

6. INTANGIBLE ASSET

	2018 S\$'000	2017 S\$'000
Cost		
Beginning of financial year	17,500	17,500
End of financial year	17,500	17,500
Accumulated amortisation		
Beginning of financial year	16,000	10,465
Amortisation	624	1,186
Write down of intangible asset	876	4,349
End of financial year	17,500	16,000
Carrying amounts		
Beginning of financial year	1,500	7,035
End of financial year	–	1,500

Intangible asset represents the unamortised income support receivable by the Trust under the Deed of Income Support entered into with CM Domain Pte Ltd, the vendor of The Clementi Mall.

The income support was provided for five years from listing date on 24 July 2013 and ended on 23 July 2018. The total amount drawn for the five years was S\$12.2 million. The write down of intangible asset in 2018 and 2017 arose due to a lower amount of income support drawdown as a result of better performance of The Clementi Mall.

7. TRADE AND OTHER RECEIVABLES

	2018 S\$'000	2017 S\$'000
Trade receivables from non-related parties	1,416	2,257
Amount owing by related parties	540	319
Other receivables	756	549
Deposits	179	65
Accrued interest	14	53
Prepayments	182	110
	3,087	3,353

The amounts owing by related parties are trade in nature, unsecured, interest free, and repayable on demand. There is no impairment loss arising from these outstanding balances.

Notes to the Financial Statements

For the financial year ended 31 August 2018

8. CASH AND CASH EQUIVALENTS

	2018 S\$'000	2017 S\$'000
Cash held as fixed bank deposit	18,000	50,000
Cash and bank balances	17,965	13,005
	35,965	63,005

Cash at banks earn interest at floating rates based on daily bank deposit rates ranging from 0% to 2.22% (2017: 0% to 0.93%) per annum. During the financial year, fixed bank deposits were placed for varying periods of generally up to 6 months, with interest rates ranging from 1.16% to 1.83% (2017: 0.48% to 1.60%) per annum.

9. BORROWINGS

	2018 S\$'000	2017 S\$'000
Secured term loan	895,000	850,000
Less: Unamortised transaction costs	(1,926)	(2,573)
	893,074	847,427
Borrowing repayable:		
Within 1 year	209,813	319,423
Between 1 – 5 years	683,261	528,004
	893,074	847,427

SPH REIT's secured term loan amounted to S\$895 million (2017: S\$850 million). As at the reporting date, the amount of S\$893.1 million (2017: S\$847.4 million) represented the loan stated at amortised cost. The loan has various repayment dates, of which S\$210 million is repayable in July 2019, S\$280 million in July 2020, S\$45 million in June 2021, S\$170 million in July 2021, S\$135 million in March 2022 and S\$55 million in July 2022.

The term loan is secured by way of a first legal mortgage on Paragon [Note 5], first legal charge over the tenancy account and sales proceeds account for Paragon, and an assignment of certain insurances taken in relation to Paragon.

Notes to the Financial Statements

For the financial year ended 31 August 2018

9. BORROWINGS (CONT'D)

In respect of bank borrowing, where appropriate, the Trust's policy is to manage its interest rate risk exposure by entering into fixed rate loan and/or interest rate swaps over the duration of its borrowing. Accordingly, the Trust entered into interest rate swap contracts to swap floating rates for fixed interest rates as part of their interest rate risk management. Under the interest rate swaps, the Trust agreed with other parties to exchange at specified intervals, the difference between fixed rate and floating rate interest amounts calculated by reference to the agreed notional principal amounts.

As at 31 August 2018, fixed rate loan and loans hedged with interest rate swaps amounted to S\$625 million (2017: S\$730 million). The fixed interest rates were from 1.44% to 2.65% (2017: 1.44% to 2.65%) per annum. The floating rates are referenced to Singapore dollar swap offer rate and repriced every three months. The effective interest rate as at the reporting date was 2.85% (2017: 2.82%) per annum.

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

	Borrowings S\$'000	Trade and other payables S\$'000	Total S\$'000
Beginning of financial year	847,427	70,228	917,655
Changes from financing cash flows			
Payment of transaction costs related to borrowing	(838)	–	(838)
Proceeds from bank loans (net of transaction costs)	44,933	–	44,933
Interest paid	–	(22,925)	(22,925)
Total changes from financing activities	44,095	(22,925)	21,170
Other changes			
Liability-related			
Finance costs	–	22,936	22,936
Amortisation of transaction costs	1,552	–	1,552
Changes in working capital	–	2,960	2,960
End of financial year	893,074	73,199	966,273

Notes to the Financial Statements

For the financial year ended 31 August 2018

10. DERIVATIVE FINANCIAL INSTRUMENTS

	Contract notional amount S\$'000	Fair value amount* S\$'000
2018		
Non-current liabilities		
Cash flow hedge		
– Interest-rate swaps	375,000	(2,814)
2017		
Non-current liabilities		
Cash flow hedge		
– Interest-rate swaps	280,000	(7,365)
Current liabilities		
Cash flow hedge		
– Interest-rate swaps	170,000	(621)

The notional principal amounts of the outstanding interest rate swap contracts and their corresponding fair values as at 31 August 2018 are:

	2018 S\$'000	2017 S\$'000
Notional due:		
Within 1 year	–	170,000
Between 1 – 5 years	375,000	280,000
Total	375,000	450,000

* The fair values of interest rate swap contracts had been calculated (using rates quoted by the Trust's bankers) assuming the contracts are terminated at the reporting date. These interest rate swaps are contracted with counter-parties which are banks and financial institutions with acceptable credit ratings.

Notes to the Financial Statements

For the financial year ended 31 August 2018

11. TRADE AND OTHER PAYABLES

	2018	2017
	S\$'000	S\$'000
Non-current		
Deposits received	32,622	30,147
Current		
Trade payable to non-related parties	347	383
Amount owing to related parties	2,373	2,614
Other payables	7,458	9,507
Accrued expense	6,600	6,342
Interest payable	2,509	2,499
Deposits received	18,572	16,723
Collections in advance	2,718	2,013
	40,577	40,081

The amounts owing to related parties are trade in nature, unsecured, interest-free and repayable on demand.

12. HEDGING RESERVE

	2018	2017
	S\$'000	S\$'000
Beginning of financial year	7,986	9,890
Fair value change	(1,422)	3,620
Transferred to finance costs	(3,750)	(5,524)
End of financial year	2,814	7,986

Notes to the Financial Statements

For the financial year ended 31 August 2018

13. UNITS IN ISSUE

	2018 '000	2017 '000
Units in issue		
Beginning of financial year	2,556,106	2,546,703
Issue of new units:		
– Manager's fee paid in units	15,739	9,403
End of financial year	2,571,845	2,556,106

During the financial year, the Trust issued 15,739,303 (2017: 9,402,702) new units at the issue price range of S\$0.9756 to S\$1.0377 (2017: S\$0.9468 to S\$0.9882 per unit), in respect of the payment of management fees to the Manager in units. The issue prices were determined based on the volume weighted average traded price for all trades done on SGX-ST in the ordinary course of trading for the last 10 business days of the relevant quarter on which the fees accrued.

Each unit in the Trust represents an undivided interest in the Trust. The rights and interests of Unitholders are contained in the Trust Deed and include the right to:

- Receive income and other distributions attributable to the units held;
- Participate in the termination of the Trust by receiving a share of all net cash proceeds derived from the realisation of the assets of the Trust less any liabilities, in accordance with their proportionate interests in the Trust. However, a Unitholder has no equitable or proprietary interest in the underlying assets of the Trust and is not entitled to the transfer to it of any assets (or part thereof) or of any estate or interest in any asset (or part thereof) of the Trust; and
- Attend all Unitholders meetings. The Trustee or the Manager may (and the Manager shall at the request in writing of not less than 50 Unitholders or one-tenth in number of the Unitholders, whichever is lesser) at any time convene a meeting of Unitholders in accordance with the provisions of the Trust Deed.

The restrictions of a Unitholder include the following:

- A Unitholder's right is limited to the right to require due administration of the Trust 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 SGX-ST.

A Unitholder's liability is limited to the amount paid or payable for any units in the Trust. The provisions of the Trust Deed provide that no Unitholders will be personally liable for indemnifying the Trustee or any creditor of the Trustee in the event that the liabilities of the Trust exceed its assets.

Notes to the Financial Statements

For the financial year ended 31 August 2018

14. CAPITAL AND OTHER COMMITMENTS

(a) Commitments for capital expenditure

	2018	2017
	S\$'000	S\$'000
Authorised and contracted for – Investment properties	1,205	3,475

(b) Operating lease commitments – where the Trust is a lessor

The future minimum lease receivables under non-cancellable operating leases contracted for but not recognised as receivables, are as follows:

	2018	2017
	S\$'000	S\$'000
Within 1 year	187,868	184,029
Between 1 – 5 years	199,760	228,493
	387,628	412,522

The Trust leases retail space to third parties under non-cancellable operating lease agreements with varying terms, escalation clauses and renewal rights.

15. GROSS REVENUE

	2018	2017
	S\$'000	S\$'000
Rental income	202,498	203,644
Car park income	6,305	6,462
Other income	2,999	2,650
	211,802	212,756

Notes to the Financial Statements

For the financial year ended 31 August 2018

16. PROPERTY OPERATING EXPENSES

	2018	2017
	S\$'000	S\$'000
Property tax	19,027	18,368
Maintenance and utilities	11,480	10,507
Property management fees	8,590	8,674
Marketing	3,579	4,135
Staff cost	2,626	2,511
Others	504	473
	45,806	44,668

Staff cost is primarily reimbursed to the Property Manager in respect of agreed employee expenditure incurred by the Property Manager for providing its services as provided for in the Property Management Agreement. There are no employees on the Trust's payroll as its daily operations and administrative functions are provided by the Manager and the Property Manager.

17. MANAGER'S MANAGEMENT FEES

	2018	2017
	S\$'000	S\$'000
Base fee	8,401	8,304
Performance fee	8,287	8,404
	16,688	16,708

18. OTHER TRUST EXPENSES

	2018	2017
	S\$'000	S\$'000
Trust's auditors		
– audit fees	181	178
– non-audit fees	55	70
Valuation expense	75	68
Consultancy and other professional fees	391	278
Other expenses	431	502
	1,133	1,096

Notes to the Financial Statements

For the financial year ended 31 August 2018

19. FINANCE COSTS

	2018 S\$'000	2017 S\$'000
Interest on borrowing	22,936	22,386
Amortisation of upfront fee for loan facility	1,552	1,540
Other financial expenses	18	18
	24,506	23,944

20. INCOME TAX

The income tax expense on profit for the financial year varies from the amount of income tax determined by applying the Singapore standard rate of income tax to total return for the year due to the following factors:

	2018 S\$'000	2017 S\$'000
Total return for the year	137,856	157,156
Tax calculated at tax rate of 17%	23,436	26,717
Expenses not deductible for tax purposes	3,268	3,226
Income not subject to tax due to tax transparency	(24,193)	(24,009)
Fair value change on investment properties	(2,511)	(5,934)
	-	-

21. EARNINGS PER UNIT

Basic and diluted Earnings per Unit are based on:

	2018	2017
Total return for the year after tax (S\$'000)	137,856	157,156
Weighted average number of Units ('000)	2,571,862	2,557,160
Basic and diluted Earnings per Unit (cents)	5.36	6.14

Diluted earnings per Unit is the same as the basic earnings per Unit as there are no dilutive instruments in issue during the year.

Notes to the Financial Statements

For the financial year ended 31 August 2018

22. FINANCIAL RISK MANAGEMENT

The Trust's activities expose it to a variety of financial risks, particularly market risk (interest rate risk), credit risk and liquidity risk. Where appropriate, the Trust's risk management policies seek to minimise potential adverse effects of these risks on the financial performance of the Trust.

Matters pertaining to risk management strategies and execution require the decision and approval of the Board of Directors of the Manager. This is supported by a sound system of risk management and internal controls to manage the risks to acceptable levels. The Manager regularly reviews the risk management policies and adequacy of risk-mitigating measures to reflect changes in market conditions and the Trust's activities.

The policies for managing these risks are summarised below.

(a) Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the fair value of a financial instrument will fluctuate due to changes in market interest rates.

The Trust has cash balances placed with reputable banks and financial institutions which generate interest income for the Trust. The Trust manages its interest rate risks by placing such balances on varying maturities and interest rate terms.

The Trust's debt comprises mainly bank borrowing to finance the acquisition of its investment properties. Where appropriate, the Trust seeks to mitigate its cash flow interest rate risk exposure by entering into fixed rate loan as well as interest rate swap contract to swap floating interest rate for fixed interest rate over the duration of its borrowing. The Trust's borrowing is denominated in SGD.

Movements in interest rates will therefore have an impact on the Trust. If the interest rate change by 0.50% (2017: 0.50%) with all other variables being held constant, the annual total return and hedging reserve will change by the amounts shown below, as a result of the change in interest expense and fair value of interest rate swaps respectively:

	Statement of Total Return		Hedging Reserve	
	Increase S\$'000	Decrease S\$'000	Increase S\$'000	Decrease S\$'000
2018				
Borrowings	(1,350)	1,350	–	–
Interest rate swap	–	–	3,829	(3,896)
	(1,350)	1,350	3,829	(3,896)
2017				
Borrowings	(600)	600	–	–
Interest rate swap	–	–	4,263	(4,343)
	(600)	600	4,263	(4,343)

Notes to the Financial Statements

For the financial year ended 31 August 2018

22. FINANCIAL RISK MANAGEMENT (CONT'D)

(b) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations, thereby resulting in financial loss to the Trust. For trade receivables, the Trust manages its credit risk through prior assessment of business proposition and credit standing of tenants, and monitoring procedures. Where appropriate, the Trust obtains collateral in the form of deposits, and bankers'/insurance guarantees from its tenants. For other financial assets, the Trust adopts the policy of dealing only with high credit quality counterparties. As such, management has determined the credit quality of the customers to be of acceptable risk.

The maximum exposure to credit risk for each class of financial instruments is the carrying amount of that class of financial instruments presented on the statement of financial position which comprise mainly trade receivables, and cash balances placed with banks. As at the reporting date, the Trust has no significant concentration of credit risks. Amount owing by related parties mainly relates to income support receivable by the Trust under the Deed of Income Support (Note 6), and is backed in the form of banker's guarantees and cash deposit in an escrow account. As at 31 August 2018 and 31 August 2017, all trade receivables were backed by bankers'/insurance guarantees and/or deposits from customers.

(i) Financial assets that are neither past due nor impaired

Bank deposits are neither past due nor impaired. Bank deposits are placed with reputable banks and financial institutions. Trade receivables that are neither past due nor impaired are substantially due from tenants with a good collection track record with the Trust.

(ii) Financial assets that are past due and/or impaired

The age analysis of trade receivables past due but not impaired is as follows:

	2018	2017
	S\$'000	S\$'000
Past due 1 to 30 days	1,094	1,427
Past due 31 to 60 days	21	68
Past due 61 to 90 days	67	470
Past due over 90 days	234	292
	1,416	2,257

Based on historical default rates, the Manager believes that no impairment losses is necessary in respect of trade receivables as these receivables mainly arose from tenants that have a good track record with the Trust and there are sufficient security deposits and/or bankers'/insurance guarantees as collateral.

Notes to the Financial Statements

For the financial year ended 31 August 2018

22. FINANCIAL RISK MANAGEMENT (CONT'D)

(c) Liquidity risk

Liquidity risk refers to the risk that the Trust will encounter difficulty in meeting obligations associated with financial liabilities. To manage liquidity risk, the Trust monitors and maintains a level of cash and cash equivalents to finance the Trust's operations and mitigate the effects of fluctuation in cash flows.

The table below analyses the maturity profile of the Trust's financial liabilities (including derivative financial instruments) based on contractual undiscounted cash flows.

	Less than 1 year S\$'000	Between 1 and 2 years S\$'000	Between 2 and 5 years S\$'000	Over 5 years S\$'000
2018				
Net-settled interest rate swap	(2,209)	(866)	35	–
Trade and other payables	(37,859)	(17,499)	(15,123)	–
Borrowing	(231,051)	(296,379)	(416,869)	–
	(271,119)	(314,744)	(431,957)	–
2017				
Net-settled interest rate swap	(4,446)	(2,450)	(1,548)	–
Trade and other payables	(38,068)	(9,195)	(20,952)	–
Borrowing	(335,926)	(135,710)	(415,456)	–
	(378,440)	(147,355)	(437,956)	–

Notes to the Financial Statements

For the financial year ended 31 August 2018

22. FINANCIAL RISK MANAGEMENT (CONT'D)

(d) Offsetting financial assets and liabilities

The disclosures set out in the tables below include financial instruments that are subject to an enforceable master netting arrangement, irrespective of whether they are offset in the statements of financial position.

	Gross amount of recognised financial instruments S\$'000	Gross amount of recognised financial instruments offset in the statement of financial position S\$'000	Net amount of financial instruments presented in the statement of financial position S\$'000	Related amount not offset in the statement of financial position S\$'000	Net amount S\$'000
2018					
Financial Liabilities					
Interest rate swaps	2,814	–	2,814	–	(2,814)
2017					
Financial Liabilities					
Interest rate swaps	7,986	–	7,986	–	(7,986)

(e) Capital management

The Trust's objectives for managing capital are to safeguard the Trust's ability to continue as a going concern and to maintain an optimal capital structure so as to maximise unitholders value. In order to maintain or achieve an optimal capital structure, the Trust may issue new units or obtain new borrowings.

The Trust is subject to the aggregate leverage limit as defined in the Property Fund Appendix of the CIS Code. The CIS Code stipulates that the total borrowings and deferred payments (together the "Aggregate Leverage") of a property fund should not exceed 45% of the fund's deposited property.

As at reporting date, the Trust has a gearing of 26.3% (2017: 25.4%), and is in compliance with the Aggregate Leverage limit of 45% (2017: 45%).

Notes to the Financial Statements

For the financial year ended 31 August 2018

22. FINANCIAL RISK MANAGEMENT (CONT'D)

(f) Fair value measurements

Fair value hierarchy

The following table presents assets and liabilities measured at fair value and classified by level of the following fair value measurement hierarchy:

- (i) Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
- (ii) 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 2); and
- (iii) Inputs for the asset and liability that are not based on observable market data (unobservable inputs) (Level 3).

	Level 1 S\$'000	Level 2 S\$'000	Level 3 S\$'000	Total S\$'000
2018				
Assets				
Investment properties	–	–	3,368,300	3,368,300
Liabilities				
Derivative financial instruments	–	(2,814)	–	(2,814)
2017				
Assets				
Investment properties	–	–	3,278,000	3,278,000
Liabilities				
Derivative financial instruments	–	(7,986)	–	(7,986)

Level 2

The fair value of interest rate swap contracts (which are not traded in an active market) is determined from information provided by financial institutions using valuation techniques with observable inputs that are based on market information existing at each reporting date.

Level 3

The valuation for investment properties is determined by independent professional valuers with appropriate professional qualifications and experience in the locations and category of the properties being valued. The valuation is generally sensitive to the various unobservable inputs tabled below. Management reviews the appropriateness of the valuation methodologies and assumptions adopted and address any significant issues that may arise.

Notes to the Financial Statements

For the financial year ended 31 August 2018

22. FINANCIAL RISK MANAGEMENT (CONT'D)

(f) Fair value measurements (Cont'd)

Fair value hierarchy (Cont'd)

<u>Description</u>	<u>Valuation technique(s)</u>	<u>Significant unobservable inputs</u>	<u>Inter-relationship between significant unobservable inputs and fair value measurement</u>
Investment properties	Discounted cash flow	Discount rate 6.50% – 8.00% (2017: 7.50%)	Significant reduction in the capitalisation rate, discount rate and/or terminal yield in isolation would result in a significantly higher fair value of the investment properties
		Terminal Yield 4.00% – 6.50% (2017: 4.00% – 5.05%)	
	Income capitalisation	Capitalisation rate 3.75% to 6.00% (2017: 3.75% to 4.80%)	

Key unobservable inputs correspond to:

- Discount rate, based on the risk-free rate for 10-year bonds issued by the Singapore government, adjusted for a risk premium to reflect the increased risk of investing in the asset class;
- Terminal yield reflects the uncertainty, functional/economic obsolescence and the risk associated with the investment properties; and
- Capitalisation rate correspond to a rate of return on investment properties based on the expected income that the property will generate.

Movement in Level 3 financial instruments for the financial year is as shown in investment properties [Note 5].

Fair value

The basis for fair value measurement of financial assets and liabilities is set out above. The fair values of other financial assets and liabilities approximate their carrying amounts.

Notes to the Financial Statements

For the financial year ended 31 August 2018

22. FINANCIAL RISK MANAGEMENT (CONT'D)

(g) Financial instruments by category

	Loans and receivables S\$'000	Derivatives used for hedging S\$'000	Other financial liabilities at amortised costs S\$'000	Total S\$'000
2018				
Assets				
Trade and other receivables excluding non-financial instruments	2,905	–	–	2,905
Cash and cash equivalents	35,965	–	–	35,965
	38,870	–	–	38,870
Liabilities				
Trade and other payables excluding non-financial instruments	–	–	(70,481)	(70,481)
Borrowing	–	–	(893,074)	(893,074)
Derivative financial instruments	–	(2,814)	–	(2,814)
	–	(2,814)	(963,555)	(966,369)
2017				
Assets				
Trade and other receivables excluding non-financial instruments	3,243	–	–	3,243
Cash and cash equivalents	63,005	–	–	63,005
	66,248	–	–	66,248
Liabilities				
Trade and other payables excluding non-financial instruments	–	–	(68,215)	(68,215)
Borrowing	–	–	(847,427)	(847,427)
Derivative financial instruments	–	(7,986)	–	(7,986)
	–	(7,986)	(915,642)	(923,628)

Notes to the Financial Statements

For the financial year ended 31 August 2018

23. RELATED PARTIES TRANSACTIONS

For the purposes of these financial statements, parties are considered to be related to the Trust if the Trust has the ability, directly or indirectly, to control the parties or exercise significant influence over the parties in making financial and operating decisions, or vice versa, or where the Trust is subject to common significant influence. Related parties may be individuals or other entities. The Manager (SPH REIT Management Pte. Ltd.) and the Property Manager (SPH Retail Property Management Services Pte. Ltd.) are subsidiaries of a substantial Unitholder of the Trust.

During the financial year, other than those disclosed elsewhere in the financial statements, the following significant related party transactions were carried out in the normal course of business on arm's length commercial terms:

	2018	2017
	S\$'000	S\$'000
Manager's management fees paid to a related company	16,688	16,708
Manager's acquisition fees paid to a related company	632	–
Property management fees paid/payable to a related company	8,590	8,674
Income support received/receivable from related company	624	1,186
Trustee's fees paid/payable to the Trustee	487	483
Staff reimbursements paid/payable to a related company	2,622	2,487
Rental and other income received/receivable from related companies	1,411	1,531
Other expenses paid/payable to related companies	1,074	1,324

24. OPERATING SEGMENTS

For the purpose of making resource allocation decisions and the assessment of segment performance, the management of the Manager reviews internal/management reports of its investment properties. This forms the basis of identifying the operating segments of the Trust.

Segment revenue comprises mainly of income generated from its tenants. Segment net property income represents the income earned by each segment after deducting property operating expenses. This is the measure reported to the management for the purpose of assessment of segment performance. In addition, the management monitors 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 management fees, trust expenses, finance income and finance expenses. Segment information by geographical area is not presented as all of the Trust's assets are located in Singapore.

Notes to the Financial Statements

For the financial year ended 31 August 2018

24. OPERATING SEGMENTS (CONT'D)

	Paragon S\$'000	The Clementi Mall S\$'000	The Rail Mall ¹ S\$'000	Total S\$'000
2018				
Result				
Gross revenue	169,461	41,499	842	211,802
Property operating expenses	(34,438)	(11,212)	(156)	(45,806)
Segment net property income	135,023	30,287	686	165,996
Income support	–	624	–	624
Amortisation of intangible asset	–	(624)	–	(624)
Write down of intangible asset	–	(876)	–	(876)
	135,023	29,411	686	165,120
Unallocated amounts:				
Manager's management fees				(16,688)
Trustee's fee				(487)
Other trust expenses				(1,133)
Finance income				778
Finance costs				(24,506)
Net Income				123,084
Fair value change on investment properties	16,984	443	(2,655)	14,772
Total return for the year before taxes and distribution				137,856
Less: income tax				–
Total return for the year after taxes and before distribution				137,856
Segment assets	2,719,631	586,051	63,300	3,368,982
Segment assets includes:				
– Plant and equipment	631	51	–	682
– Investment properties	2,719,000	586,000	63,300	3,368,300
Unallocated assets				39,052
Total assets				3,408,034
Segment liabilities	40,331	9,873	990	51,194
Unallocated liabilities:				
– Borrowing				893,074
– Others				24,819
Total liabilities				969,087
Other information				
Additions to:				
– Plant and equipment	11	40	–	51
– Investment properties	7,017	2,556	–	9,573
Acquisition of investment property	–	–	65,955	65,955
Depreciation of plant and equipment	(194)	(18)	–	(212)

¹ The Rail Mall was acquired on 28 June 2018. Total acquisition cost of S\$65.9 million included acquisition fees and acquisition related expenses (Note 5).

Notes to the Financial Statements

For the financial year ended 31 August 2018

24. OPERATING SEGMENTS (CONT'D)

	Paragon S\$'000	The Clementi Mall S\$'000	Total S\$'000
2017			
Result			
Gross revenue	173,077	39,679	212,756
Property operating expenses	(34,804)	(9,864)	(44,668)
Segment net property income	138,273	29,815	168,088
Income support	–	1,186	1,186
Amortisation of intangible asset	–	(1,186)	(1,186)
Write down of intangible asset	–	(4,349)	(4,349)
	138,273	25,466	163,739
Unallocated amounts:			
Manager's management fees			(16,708)
Trustee's fee			(483)
Other trust expenses			(1,096)
Finance income			744
Finance costs			(23,944)
Net Income			122,252
Fair value change on investment properties	30,531	4,373	34,904
Total return for the year before taxes and distribution			157,156
Less: income tax			–
Total return for the year after taxes and before distribution			157,156
Segment assets	2,695,813	584,530	3,280,343
Segment assets includes:			
– Plant and equipment	813	30	843
– Investment properties	2,695,000	583,000	3,278,000
– Intangible asset	–	1,500	1,500
Unallocated assets			66,358
Total assets			3,346,701
Segment liabilities	37,249	9,621	46,870
Unallocated liabilities:			
– Borrowing			847,427
– Others			31,344
Total liabilities			925,641
Other information			
Additions to:			
– Plant and equipment	89	16	105
– Investment properties	8,469	4,627	13,096
Depreciation of plant and equipment	(194)	(17)	(211)

Notes to the Financial Statements

For the financial year ended 31 August 2018

25. FINANCIAL RATIOS

	2018	2017
	%	%
Ratio of expenses to weighted average net assets value ¹		
– including performance component of Manager’s management fees	0.75	0.76
– excluding performance component of Manager’s management fees	0.41	0.41
Total operating expenses to net asset value ²	2.58	2.56
Portfolio turnover rate ³	–	–

Notes:

- 1 The annualised ratio is computed in accordance with guidelines of Investment Management Association of Singapore dated 25 May 2005. The expenses used in the computation relate to expenses of the Trust, excluding property expenses and finance expense.
- 2 The ratio is computed based on the total property expenses, including all fees and charges paid to the Trustee, the Manager and related parties for the financial year and as a percentage of net asset value as at the end of the financial year.
- 3 The annualised ratio is computed based on the lesser of purchases or sales of underlying investment properties of the Trust expressed as a percentage of weighted average net asset value. The portfolio turnover rate was nil for the year ended 31 August 2018 and 31 August 2017, as there were no sales of investment properties.

26. NEW OR REVISED ACCOUNTING STANDARDS AND INTERPRETATIONS

Certain new standards and amendments and interpretations to existing standards have been published and are mandatory for the Trust’s accounting periods beginning on or after September 1, 2018 or later periods for which the Trust has not early adopted.

For those new standards and amendments and interpretations to existing standards that are expected to have an effect on the financial statements of the Trust in future financial periods, the Trust is currently assessing the transition options and the potential impact on the financial statements. The Trust does not plan to adopt these standards early.

Applicable to the Trust’s accounting periods beginning September 1, 2018

FRS 115 Revenue from Contracts with Customers

FRS 115 replaces all existing revenue recognition requirements. It establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It also introduces new cost guidance which requires certain costs of obtaining and fulfilling contracts to be recognised as separate assets when specified criteria are met.

The Trust does not expect significant changes to the basis of revenue recognition for its rental revenue. Transition adjustments are not expected to be material on its financial statements.

Notes to the Financial Statements

For the financial year ended 31 August 2018

26. NEW OR REVISED ACCOUNTING STANDARDS AND INTERPRETATIONS (CONT'D)

FRS 109 Financial Instruments

FRS 109 replaces most of the existing guidance in FRS 39 *Financial Instruments: Recognition and Measurement*. It includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from FRS 39.

The Trust's assessment of the three elements of FRS 109 is as described below.

Classification and measurement – The Trust does not expect a significant change to the measurement basis arising from adopting the new classification and measurement model under FRS 109.

Loans and receivables that are currently accounted for at amortised cost will continue to be accounted for using amortised cost model under FRS 109.

For financial assets currently held at fair value, the Trust expects to continue measuring most of these assets at fair value under FRS 109.

Impairment – The Trust plans to apply the simplified approach and record lifetime expected impairment losses on all trade receivables and any contract assets arising from the application of FRS 109. The Trust is currently refining its impairment loss estimation methodology to quantify the impact on its financial statements.

Hedge accounting – The Trust expects that all its existing hedges that are designated in effective hedging relationships will continue to qualify for hedge accounting under FRS 109.

The Trust plans to adopt the standard when it becomes effective in 2018 without restating comparative information.

Applicable to the Trust's accounting periods beginning September 1, 2019

FRS 116 Leases

FRS 116 replaces existing lease accounting guidance. It eliminates the lessee's classification of leases as either operating leases or finance leases and introduces a single lessee accounting model. Applying the new model, a lessee is required to recognise right-of-use (ROU) assets and lease liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. The accounting for lessors will not change significantly.

The Trust does not expect the adoption of FRS116 to have a significant impact on its financial statements.

27. SUBSEQUENT EVENT

Subsequent to the reporting date, the Manager announced a distribution of 1.43 cents per unit, for the quarter from 1 June 2018 to 31 August 2018.

28. AUTHORISATION OF FINANCIAL STATEMENT

The financial statements were authorised for issue by the Manager and the Trustee on 11 October 2018.