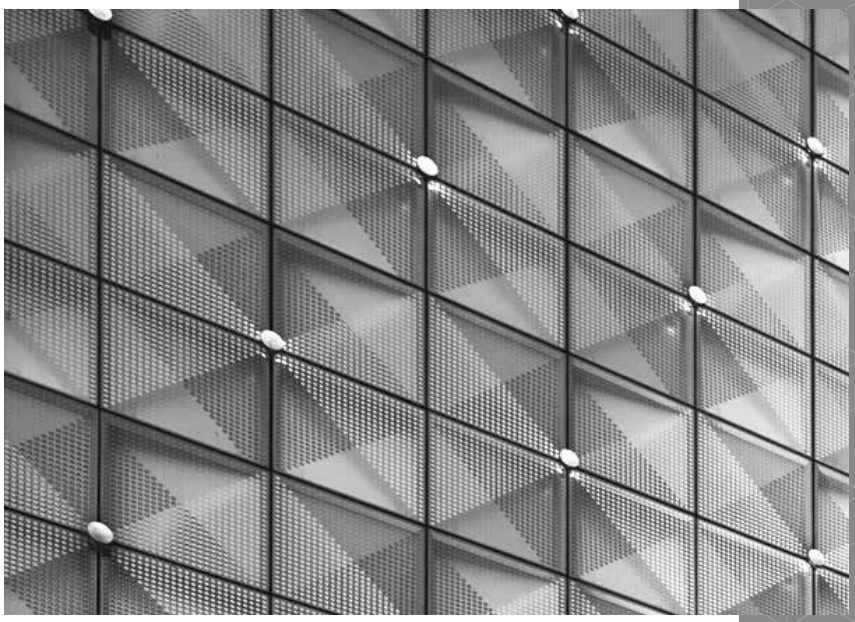
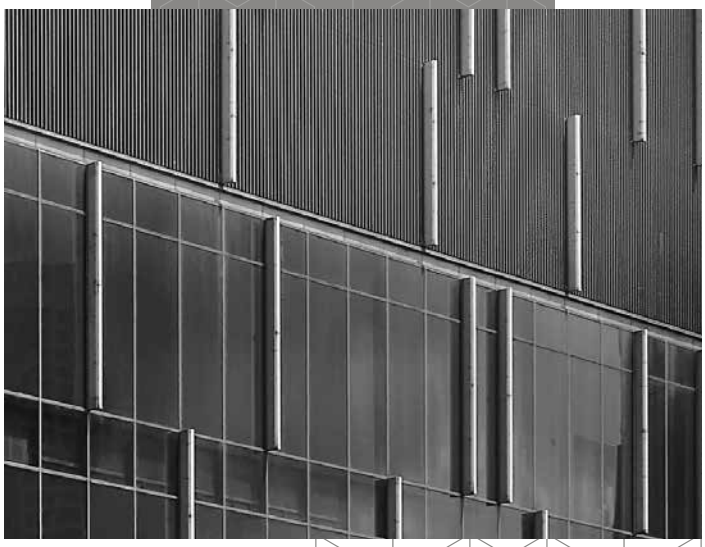




FINANCIAL CONTENTS

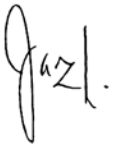
REPORT OF THE TRUSTEE

For the financial year ended 31 August 2019

DBS Trustee Limited (the "Trustee") is under a duty to take into custody and hold the assets of SPH REIT (the "Trust") and its subsidiaries (the "Group") 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 113 to 178 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
10 October 2019

STATEMENT BY THE MANAGER

For the financial year ended 31 August 2019

In the opinion of the directors of SPH REIT Management Pte. Ltd., the accompanying financial statements set out on pages 113 to 178, comprising the Statements of Financial Position, Statements of Total Return, Distribution Statements, Statements of Changes in Unitholders' Funds, Consolidated Statement of Cash Flows, Portfolio Statements and Notes to the Financial Statements are drawn up so as to present fairly, in all material respects, the financial position of SPH REIT (the "Trust") and its subsidiaries (the "Group") as at 31 August 2019, the total return, distributable income, changes in Unitholders' funds and cash flows of the Group and the total return, distributable income and changes in Unitholders' funds of the Trust for the financial year then ended 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 its 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
10 October 2019

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") and its subsidiaries (the "Group"), which comprise the Statements of Financial Position and Portfolio Statements of the Group and the Trust as at 31 August 2019, and the Statements of Total Return, Distribution Statements, Statements of Changes in Unitholders' Funds of the Group and the Trust and the Statement of Cash Flows of the Group for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 113 to 178.

In our opinion, the accompanying consolidated financial statements of the Group and the Statements of Financial Position, Portfolio Statements, Statements of Total Return, Distribution Statement and Statements of Changes in Unitholders' Funds of the Trust present fairly, in all material respects, the consolidated financial position and the consolidated portfolio holdings of the Group and the financial position and the portfolio holdings of the Trust as at 31 August 2019 and the consolidated total return, consolidated distributable income, consolidated changes in unitholders' funds and consolidated cash flows of the Group and the total return, distributable income and changes in Unitholders' funds 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 24(h) to the financial statements)

Risk:

Investment properties represent the single largest category of assets on the Statements of Financial Position, at S$3.6 billion as at 31 August 2019.

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 Group 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 valuers are members of recognised professional bodies for valuers and have confirmed their own independence in carrying out their work.

The valuation methodologies adopted by the valuers 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 ("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 do 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 Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Manager either intends to terminate the Group or to cease operations of the Group, or has no realistic alternative but to do so.

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

Auditors' responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

- Obtain an understanding of internal controls relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal controls.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Manager.

- Conclude on the appropriateness of the 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 Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

INDEPENDENT AUDITORS' REPORT

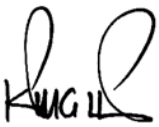
To the Unitholders of SPH REIT
(Constituted in the Republic of Singapore pursuant to a Trust Deed dated 9 July 2013)

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 Lim Jek.



KPMG LLP
Public Accountants and Chartered Accountants

Singapore
10 October 2019

STATEMENTS OF FINANCIAL POSITION

As at 31 August 2019

	Note	Group 2019 S$'000	Group 2018 S$'000	Trust 2019 S$'000	Trust 2018 S$'000
Non-current assets					
Plant and equipment	4	**630**	682	**630**	682
Investment properties	5	**3,597,756**	3,368,300	**3,405,800**	3,368,300
Investment in subsidiary	6	**–**	–	**981**	–
Trade and other receivables	8	**–**	–	**97,149**	–
Derivative financial instruments	11	**1,865**	–	**1,865**	–
		3,600,251	3,368,982	**3,506,425**	3,368,982
Current assets					
Trade and other receivables	8	**5,494**	3,087	**2,603**	3,087
Cash and cash equivalents	9	**342,657**	35,965	**336,761**	35,965
		348,151	39,052	**339,364**	39,052
Total assets		**3,948,402**	3,408,034	**3,845,789**	3,408,034
Non-current liabilities					
Borrowings	10	**811,514**	683,261	**713,739**	683,261
Derivative financial instruments	11	**1,243**	2,814	**1,243**	2,814
Trade and other payables	12	**34,764**	32,622	**34,764**	32,622
		847,521	718,697	**749,746**	718,697
Current liabilities					
Borrowings	10	**279,625**	209,813	**279,625**	209,813
Derivative financial instruments	11	**1,561**	–	**1,561**	–
Trade and other payables	12	**48,258**	40,577	**45,156**	40,577
		329,444	250,390	**326,342**	250,390
Total liabilities		**1,176,965**	969,087	**1,076,088**	969,087
Net assets		**2,771,437**	2,438,947	**2,769,701**	2,438,947
Represented by:					
Unitholders' funds		**2,458,864**	2,438,947	**2,471,777**	2,438,947
Perpetual securities holders' fund	13	**297,924**	–	**297,924**	–
Non-controlling interests	14	**14,649**	–	**–**	–
		2,771,437	2,438,947	**2,769,701**	2,438,947
Units in issue ('000)	15	**2,588,701**	2,571,845	**2,588,701**	2,571,845
Net asset value per unit ($)		**0.95**	0.95	**0.95**	0.95

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

STATEMENTS OF TOTAL RETURN

For the financial year ended 31 August 2019

	Note	Group 2019 S$'000	Group 2018 S$'000	Trust 2019 S$'000	Trust 2018 S$'000
Gross revenue	17	**228,635**	211,802	**217,188**	211,802
Property operating expenses	18	**(48,856)**	(45,806)	**(45,953)**	(45,806)
Net property income		**179,779**	165,996	**171,235**	165,996
Income support		**–**	624	**–**	624
Amortisation of intangible asset		**–**	(624)	**–**	(624)
Write down of intangible asset		**–**	(876)	**–**	(876)
Manager's management fees	19	**(17,790)**	(16,688)	**(17,790)**	(16,688)
Investment management fees		**(542)**	–	**–**	–
Trustee's fees		**(520)**	(487)	**(504)**	(487)
Trust expenses	20	**(1,475)**	(1,133)	**(3,689)**	(1,133)
Dividend income from subsidiaries		**–**	–	**2,004**	–
Finance income		**765**	778	**725**	778
Finance costs	21	**(30,480)**	(24,506)	**(27,869)**	(24,506)
Net income		**129,737**	123,084	**124,112**	123,084
Fair value change on investment properties	5	**19,443**	14,772	**33,865**	14,772
Net foreign currency exchange differences		**–**	–	**3,618**	–
Total return for the year before taxes and distribution		**149,180**	137,856	**161,595**	137,856
Less: income tax	22	**(359)**	–	**(3)**	–
Total return for the year after taxes and before distribution		**148,821**	137,856	**161,592**	137,856
Attributable to:					
Unitholders of the Trust		**149,898**	137,856	**161,558**	137,856
Perpetual securities holders	13	**34**	–	**34**	–
Non-controlling interests	14	**(1,111)**	–	**–**	–
		148,821	137,856	**161,592**	137,856
Earnings per unit (cents)					
Basic and diluted	23	**5.79**	5.36	**6.24**	5.36

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

DISTRIBUTION STATEMENTS

For the financial year ended 31 August 2019

	Group		Trust	
	2019 S$'000	2018 S$'000	**2019 S$'000**	2018 S$'000
Income available for distribution to Unitholders at beginning of the year	**38,785**	38,304	**38,785**	38,304
Total return attributable to Unitholders	**149,898**	137,856	**161,558**	137,856
(Less)/Add: Net tax adjustments (Note A)	**(4,864)**	4,454	**(16,524)**	4,454
Total income available for distribution to Unitholders for the year	**183,819**	180,614	**183,819**	180,614
Distribution to Unitholders				
– Distribution of 1.42 cents per unit for the period from 1 June 2017 to 31 August 2017	**–**	(36,297)	**–**	(36,297)
– Distribution of 1.34 cents per unit for the period from 1 September 2017 to 30 November 2017	**–**	(34,380)	**–**	(34,380)
– Distribution of 1.40 cents per unit for the period from 1 December 2017 to 28 February 2018	**–**	(35,947)	**–**	(35,947)
– Distribution of 1.37 cents per unit for the period from 1 March 2018 to 31 May 2018	**–**	(35,205)	**–**	(35,205)
– Distribution of 1.43 cents per unit for the period from 1 June 2018 to 31 August 2018	**(36,778)**	–	**(36,778)**	–
– Distribution of 1.34 cents per unit for the period from 1 September 2018 to 30 November 2018	**(34,602)**	–	**(34,602)**	–
– Distribution of 1.41 cents per unit for the period from 1 December 2018 to 28 February 2019	**(36,440)**	–	**(36,440)**	–
– Distribution of 1.39 cents per unit for the period from 1 March 2019 to 31 May 2019	**(35,953)**	–	**(35,953)**	–
	(143,773)	(141,829)	**(143,773)**	(141,829)
Income available for distribution to Unitholders at end of the year	**40,046**	38,785	**40,046**	38,785

Note A – Net tax adjustments

Non-tax deductible items:				
Manager's management fees	**16,791**	16,688	**16,791**	16,688
Trustee's fees	**520**	487	**504**	487
Amortisation of intangible asset	**–**	624	**–**	624
Amortisation of upfront fee for loan facility	**943**	1,552	**908**	1,552
Fair value change on investment properties	**(21,329)**	(14,772)	**(33,865)**	(14,772)
Net foreign currency exchange differences	**–**	–	**(3,621)**	–
Net income from subsidiaries	**(4,134)**	–	**(2,004)**	–
Cost incurred to acquire subsidiaries	**2,096**	–	**4,678**	–
Other items	**249**	(125)	**85**	(125)
Net tax adjustments	**(4,864)**	4,454	**(16,524)**	4,454

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

STATEMENTS OF CHANGES IN UNITHOLDERS' FUNDS

For the financial year ended 31 August 2019

	Group		Trust	
	2019 S$'000	2018 S$'000	**2019 S$'000**	2018 S$'000
Balance as at beginning of year	**2,438,947**	2,421,060	**2,438,947**	2,421,060
Operations				
Total return for the year after tax attributable to Unitholders of the Trust	**149,898**	137,856	**161,558**	137,856
Hedging reserve				
Effective portion of changes in fair value of cash flow hedges	**(3,295)**	1,422	**(3,295)**	1,422
Net change in fair value of cash flow hedge reclassified to Statements of Total Return	**1,549**	3,750	**1,549**	3,750
Foreign currency translation reserve				
Translation differences from financial statements of foreign operations	**(1,253)**	–	**–**	–
Net (loss)/gain recognised directly in Unitholders' funds	**(2,999)**	5,172	**(1,746)**	5,172
Unitholders' transactions				
Distribution to unitholders	**(143,773)**	(141,829)	**(143,773)**	(141,829)
Manager's fee paid/payable in units	**16,791**	16,688	**16,791**	16,688
	(126,982)	(125,141)	**(126,982)**	(125,141)
Balance as at end of year	**2,458,864**	2,438,947	**2,471,777**	2,438,947
Perpetual securities holders' funds				
Balance as at beginning of year	**–**	–	**–**	–
Issue of perpetual securities	**300,000**	–	**300,000**	–
Issue costs	**(2,110)**	–	**(2,110)**	–
Amount reserved for distribution to perpetual securities holders	**34**	–	**34**	–
Balance as at end of year	**297,924**	–	**297,924**	–

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the financial year ended 31 August 2019

	Group	
	2019	2018
	S$'000	S$'000
Cash flows from operating activities		
Total return for the year	**148,821**	137,856
Adjustments for:		
Fair value change on investment properties	**(19,443)**	(14,772)
Manager's fee paid/payable in units	**16,791**	16,688
Depreciation of plant and equipment	**187**	212
Finance income	**(765)**	(778)
Finance costs	**30,480**	24,506
Amortisation of intangible asset	**–**	624
Write down of intangible asset	**–**	876
Straight-line rental adjustments	**64**	(251)
Operating cash flow before working capital changes	**176,135**	164,961
Changes in operating assets and liabilities		
Trade and other receivables	**(2,468)**	478
Trade and other payables	**6,804**	(599)
Net cash from operating activities	**180,471**	164,840
Cash flows from investing activities		
Acquisition of investment property	**(207,670)**	(65,081)
Additions to investment properties	**(7,869)**	(6,911)
Purchase of plant and equipment	**(71)**	(24)
Interest received	**762**	817
Net cash used in investing activities	**(214,848)**	(71,199)
Cash flows from financing activities		
Payment of transaction costs related to borrowing	**(478)**	(860)
Perpetual securities	**300,000**	–
Issue cost of perpetual securities	**(2,110)**	–
Proceeds from issue of units to non-controlling interests	**16,834**	–
Proceeds from bank loan (net of transaction costs)	**200,115**	44,933
Distribution to unitholders	**(143,773)**	(141,829)
Distributions to non-controlling interests of a subsidiary	**(450)**	–
Interest paid	**(28,879)**	(22,925)
Net cash from/(used in) financing activities	**341,259**	(120,681)
Net increase/(decrease) in cash and cash equivalents	**306,882**	(27,040)
Effect of exchange rate fluctuations on cash and cash equivalents held	**(190)**	–
Cash and cash equivalents at beginning of the year	**35,965**	63,005
Cash and cash equivalents at end of the year	**342,657**	35,965

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

PORTFOLIO STATEMENT OF THE GROUP

For the financial year ended 31 August 2019

Description of Property	Location	Tenure of Land	Term of Lease
Investment properties in Singapore			
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	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
Investment property in Australia			
Figtree Grove Shopping Centre[1]	19 & 23 Princes Highway, Figtree, Wollongong, NSW 2525	Freehold	–
Portfolio of investment properties			
Other assets and liabilities (net)			
Net assets of the Group			
Perpetual securities holders' funds			
Non-controlling interests			
Unitholders' funds			

1 The acquisition of Figtree Grove Shopping Centre was completed on 21 December 2018.

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

PORTFOLIO STATEMENT OF THE GROUP

For the financial year ended 31 August 2019

Remaining Term of Lease 31 August 2019	Occupancy Rate as at 31 August		At Valuation 31 August		Percentage of Unitholders' funds 31 August	
	2019 (%)	2018 (%)	**2019 S$'000**	2018 S$'000	**2019 (%)**	2018 (%)
93 years	**99.8**	99.6	**2,745,000**	2,719,000	**111**	111
90 years	**100.0**	100.0	**597,000**	586,000	**24**	24
27 years	**84.3**	94.8	**63,800**	63,300	**3**	3
–	**99.2**	–	**191,956**	–	**8**	–
			3,597,756	3,368,300	**146**	138
			(826,319)	(929,353)	**(33)**	(38)
			2,771,437	2,438,947	**113**	100
			(297,924)	–	**(12)**	–
			(14,649)	–	**(1)**	–
			2,458,864	2,438,937	**100**	100

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

PORTFOLIO STATEMENT OF THE TRUST

For the financial year ended 31 August 2019

Description of Property	Location	Tenure of Land	Term of Lease
Investment properties in Singapore			
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	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)			
Net assets of the Trust			
Perpetual securities holders' funds			
Unitholders' funds			

PORTFOLIO DETAILS

Investment properties in Singapore

The carrying amount of the investment properties were based on independent valuations as at 31 August 2019 and 31 August 2018 conducted by Edmund Tie & Company (SEA) Pte Ltd ("ETC"). 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 Statements of Total Return.

Investment property in Australia

The carrying amount of the investment property was based on independent valuation as at 31 August 2019 conducted by M3property Pty Ltd ("M3"). M3 has appropriate professional qualifications and experience in the location and category of the property being valued. The valuation of the investment property was based on the discounted cash flow and capitalisation methods. The net change in fair value has been recognised in the Statements of Total Return.

PORTFOLIO STATEMENT OF THE TRUST

For the financial year ended 31 August 2019

Remaining Term of Lease 31 August 2019	Occupancy Rate as at 31 August		At Valuation 31 August		Percentage of Unitholders' funds 31 August	
	2019 (%)	2018 (%)	**2019 S$'000**	2018 S$'000	**2019 (%)**	2018 (%)
93 years	**99.8**	99.6	**2,745,000**	2,719,000	**111**	111
90 years	**100.0**	100.0	**597,000**	586,000	**24**	24
27 years	**84.3**	94.8	**63,800**	63,300	**3**	3
			3,405,800	3,368,300	**138**	138
			(636,099)	(929,353)	**(26)**	(38)
			2,769,701	2,438,947	**112**	100
			(297,924)	–	**(12)**	–
			2,471,777	2,438,947	**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 2019

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 and its subsidiaries 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 financial statements of the Trust as at and for the year ended 31 August 2019 comprise the Trust and its subsidiaries (together referred to as the "Group" and individually as "Group entities").

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 2019

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 May 2019, 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 and for the period from 1 June 2019 to 31 August 2019.

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 2019, 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 2019

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 ("FRS").

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

The preparation of financial statements in conformity with FRS requires management to exercise its judgement in the process of applying the Group's accounting policies. It also requires the use of certain critical accounting estimates and assumptions. Areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 3.

Changes in accounting policies

The Group has applied the recognition and measurement principles of the following FRSs, for the annual period beginning on 1 September 2018:

- FRS 115 *Revenue from Contracts with Customers*
- FRS 109 *Financial Instruments*

The application of the above standards did not have a material effect on the financial statements.

FRS 109 *Financial Instruments*

(i) Classification and measurement of financial assets and financial liabilities

Under FRS 109, financial assets are classified in the following categories: measured at amortised cost, fair value through other comprehensive income ("FVOCI") or fair value through profit or loss ("FVTPL"). The classification of financial assets is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. FRS 109 eliminates the previous FRS 39 *Financial Instruments: Recognition and Measurement* categories of held-to-maturity, loans and receivables and available-for-sale.

For an explanation of how the Group and the Trust classify and measure financial assets and financial liabilities and related gains and losses under the FRS 109, see note 2(h) and 2(i).

The following table and the accompanying notes below explain the original measurement categories under FRS 39 and the new measurement categories under FRS 109 of each class of the Group's and the Trust's financial assets and financial liabilities as at 1 September 2018.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 August 2019

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(a) Basis of preparation (cont'd)

Changes in accounting policies (cont'd)

FRS 109 *Financial Instruments* (cont'd)

(i) Classification and measurement of financial assets and financial liabilities (cont'd)

			1 September 2018	
	Original classification under FRS 39	**New classification under FRS 109**	**Original carrying amount under FRS 39 S$'000**	**New carrying amount under FRS 109 S$'000**
Group and Trust				
Financial assets				
Trade and other receivables excluding non-financial instruments	Loans and receivables	Amortised costs	2,905	2,905
Cash and cash equivalents	Loans and receivables	Amortised costs	35,965	35,965
Total financial assets			38,870	38,870
Financial liabilities				
Trade and other payables excluding non-financial instruments	Other financial liabilities	Other financial liabilities	(70,481)	(70,481)
Borrowings	Other financial liabilities	Other financial liabilities	(893,074)	(893,074)
Derivative financial instruments	Fair value –hedging instrument	Fair value –hedging instrument	(2,814)	(2,814)
Total financial liabilities			(966,369)	(966,369)

(ii) Impairment

FRS 109 replaces the 'incurred loss' model in FRS 39 with an 'expected credit loss' model. The Group and the Trust applies the simplified approach and records lifetime expected credit loss on all trade receivables (see note 2(h)(v)). The change in the impairment loss amount was negligible.

The accounting policies set out below have been applied consistently to all periods presented in these financial statements, and have been applied consistently by Group entities, except as explained above, which addresses change in accounting policies.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 August 2019

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(b) Group Accounting

(i) Subsidiaries

- Consolidation

  The consolidated financial statements include the financial statements of the Trust and its subsidiaries made up to the end of the financial year.

  Subsidiaries are entities controlled by the Group, generally accompanied by a shareholding of more than one half of the voting rights. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date on which control ceases.

  In preparing the consolidated financial statements, transactions, balances and unrealised gains on transactions between group entities are eliminated. Unrealised losses are also eliminated but are considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

  Non-controlling interests are that part of net results of operations and of net assets of a subsidiary attributable to interests which are not owned directly or indirectly by the Trust. They are shown separately in the Statements of Total Return and Statements of Financial Position. Total return is attributed to the non-controlling interests based on their respective interests in a subsidiary, even if this results in the non-controlling interests having a deficit balance.

- Acquisitions

  The acquisition method of accounting is used to account for business combinations by the Group.

  The consideration transferred for the acquisition of a subsidiary comprises the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred also includes the fair value of any contingent consideration arrangement and the fair value of any pre-existing equity interest in the subsidiary.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(b) Group Accounting (cont'd)

(i) Subsidiaries (cont'd)

- Acquisitions (cont'd)

  Acquisition-related costs are expensed as incurred.

  Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date.

  On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree at the date of acquisition either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets.

  Goodwill arising from business combination is the excess of the fair value of consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets and contingent liabilities acquired. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the Statements of Total Return.

  Goodwill arising from business combination is recognised separately as intangible assets and carried at cost less accumulated impairment losses.

  The gains and losses on the disposal of subsidiaries include the carrying amount of goodwill relating to the entity sold.

- Disposals

  Upon the loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any amounts previously recognised in unitholder's funds in respect of that entity are transferred to the Statements of Total Return or transferred directly to retained earnings if required by a specific standard.

  Any retained interest in the entity is remeasured at fair value at the date that control is lost. The difference between the carrying amount of the retained interest at the date when control is lost and its fair value is recognised in the Statements of Total Return.

- Transactions with non-controlling interests

  Changes in the Group's ownership interest in a subsidiary that do not result in a loss of control over the subsidiary are accounted for as transactions with unitholders of the Group. Any difference between the change in the carrying amount of the non-controlling interest and the fair value of the consideration paid or received is recognised in unitholders' funds.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 August 2019

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(c) Currency translation

(i) Functional and presentation currency

Items included in the financial statements of each entity in the Group are measured using the currency of the primary economic environment in which the entity operates ("functional currency"). The financial statements are presented in Singapore Dollars ("presentation currency"), which is also the Trust's functional currency. All financial information presented in Singapore Dollars have been rounded to the nearest thousand, unless otherwise stated.

(ii) Transactions and balances

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 the 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 Statements 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.

(iii) Translation of Group entities' financial statements

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities are translated at the closing exchange rates at the reporting date;
- Income and expenses are translated at average exchange rates; and
- All resulting exchange differences are taken to unitholders' funds and transferred to the Statements of Total Return upon the disposal of the foreign operation as part of the gain or loss on disposal.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rates at the reporting date.

Foreign currency differences are recognised in unitholders' funds. However, if the foreign operation is a non-wholly-owned subsidiary, then the relevant proportionate share of the translation difference is allocated to the NCI. When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to the Statements of Total Return as part of the gain or loss on disposal. When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to NCI. When the Group disposes of only part of its investment in an associate or joint venture that includes a foreign operation while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to the Statements of Total Return.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 August 2019

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(c) Currency translation (cont'd)

(iv) Net investment in a foreign operation

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

(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 Statements 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 Statements of Total Return. The cost of maintenance, repairs and minor improvements is charged to the Statements 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 Statements 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

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 Statements 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 2019

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 Group and the cost of the item can be measured reliably. All other repair and maintenance expenses are recognised in the Statements 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 Statements 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 Statements 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

<u>Policy applicable from 1 September 2018</u>

On initial recognition, a financial asset is classified as measured at: amortised cost; FVOCI – debt investment; FVOCI – equity investment; or FVTPL.

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

- Financial assets at amortised cost

  A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

  – it is held within a business model whose objective is to hold assets to collect contractual cash flows; and

  – its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(h) Financial assets (cont'd)

(i) Classification (cont'd)

Financial assets: Business model assessment – Policy applicable from 1 September 2018

The Group makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Group's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for this purpose, consistent with the Group's continuing recognition of the assets.

Non-derivative financial assets: Assessment whether contractual cash flows are solely payments of principal and interest – Policy applicable from 1 September 2018

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Group considers:

- contingent events that would change the amount or timing of cash flows;
- terms that may adjust the contractual coupon rate, including variable rate features;
- prepayment and extension features; and
- terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse features).

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 August 2019

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(h) Financial assets (cont'd)

(i) Classification (cont'd)

Non-derivative financial assets: Assessment whether contractual cash flows are solely payments of principal and interest – Policy applicable from 1 September 2018 (cont'd)

A prepayment feature is consistent with the solely payments of principal and interest criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable additional compensation for early termination of the contract. Additionally, for a financial asset acquired at a significant discount or premium to its contractual par amount, a feature that permits or requires prepayment at an amount that substantially represents the contractual par amount plus accrued (but unpaid) contractual interest (which may also include reasonable additional compensation for early termination) is treated as consistent with this criterion if the fair value of the prepayment feature is insignificant at initial recognition.

Policy applicable before 1 September 2018

The Group 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. Management 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.

(ii) Recognition and derecognition

Purchases and sales of financial assets are recognised on trade-date – the date on which the Group 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 Group 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 Statements of Total Return. Any amounts in the fair value reserve relating to that asset is also transferred to the Statements of Total Return.

Financial assets and liabilities are offset and the net amount presented in the Statements of Financial Position when, and only when, the Group 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 except for financial assets at fair value through profit or loss, which are recognised at fair value. Transaction costs for financial assets at fair value through profit or loss are recognised immediately in the Statements of Total Return.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(h) Financial assets (cont'd)

(iv) Subsequent measurement

Policy applicable from 1 September 2018

- Financial assets at amortised cost

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

Policy applicable before 1 September 2018

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

(v) Impairment

Policy applicable from 1 September 2018

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

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

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

– Lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

Simplified approach

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

General approach

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 August 2019

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(h) Financial assets (cont'd)

(v) Impairment (cont'd)

Policy applicable from 1 September 2018 (cont'd)

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

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

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

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

Measurement of ECLs

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

Credit-impaired financial assets

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

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

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or being more than 90 days past due;
- the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;
- it is probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(h) Financial assets (cont'd)

(v) Impairment (cont'd)

Policy applicable from 1 September 2018 (cont'd)

Presentation of allowance for ECLs in the Statements of Financial Position

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

Write-off

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

Policy applicable before 1 September 2018

The Group 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.

- Loans and receivables

  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 Statements 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 Statements of Total Return.

  The allowance for impairment loss account is reduced through the Statements 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.

(vi) Offsetting

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

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 August 2019

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(i) Derivative financial instruments and hedging activities

Policy applicable from 1 September 2018

Derivatives are used to manage exposure to foreign exchange and interest rate risks arising from operating, financing and investing activities.

A derivative 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 Group 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 Group 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 Group 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.

Hedging relationships designated under FRS 39 that were still existing as at 31 August 2018 are treated as continuing hedges and hedge documentations were aligned accordingly to the requirements of FRS 109.

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. The fair value of a trading derivative is presented as a current asset or liability.

(i) Cash flow hedge

The Group has entered into interest rate swaps that are cash flow hedges for the Group's exposure to interest rate risk on its borrowings. These contracts entitle the Group to receive interest at floating rates on notional principal amounts and oblige the Group to pay interest at fixed rates on the same notional principal amounts, thus allowing the Group to raise borrowings 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 unitholders' funds and accumulated in the hedging reserve and transferred to the Statements of Total Return in the periods when the interest expense on the borrowings is recognised in the Statements of Total Return. The gain or loss relating to the ineffective portion is recognised immediately in the Statements of Total Return.

The Group designates only the change in fair value of the spot element of forward exchange contracts as the hedging instrument in cash flow hedging relationships.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 August 2019

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(i) Derivative financial instruments and hedging activities (cont'd)

Policy applicable from 1 September 2018 (cont'd)

(ii) Derivatives that do not qualify for hedge accounting

Changes in the fair value of derivatives that do not qualify for hedge accounting are recognised immediately in the Statements of Total Return.

Policy applicable before 1 September 2018

The policy applied in the comparative information presented for 2018 is similar to that applied for 2019. For all cash flow hedges, the amounts accumulated in the cash flow hedge reserve were reclassified to the Statements of Total Return in the same period or periods during which the hedged expected future cash flows affect the Statements of Total Return.

(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 Statements of Total Return.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 August 2019

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(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.

(m) Revenue recognition

Rental income from operating leases

Rental income receivable under operating leases is recognised as 'revenue' on a straight-line basis over the term of the lease, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased assets. Lease incentives granted are recognised as an integral part of the total rental to be received. Contingent rentals, which include gross turnover rental, are recognised as income in the accounting period in which they are earned. No contingent rentals are recognised if there are uncertainties due to the possible return of amounts received.

Dividend income

Dividend income is recognised in the Statements of Total Return on the date that the right to receive payment is established.

Interest income

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 Group expects, at the reporting date, to recover or settle the carrying amounts of its assets and liabilities.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(n) Income taxes (cont'd)

Deferred tax liabilities are recognised on temporary differences arising on investments in subsidiaries except where the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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 Statements of Total Return, except to the extent that the tax arises from a transaction which is recognised directly in unitholders' funds.

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.

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.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 August 2019

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(n) Income taxes (cont'd)

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.

(o) Distribution policy

The Trust 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) Finance costs

Finance costs are recognised in the Statements of Total Return using the effective interest method.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 August 2019

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(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 Statements of Total Return over the period of the borrowing using the effective interest method.

Borrowing is presented as a current liability unless the Group 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.

(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 Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

(s) Provisions

Provisions are recognised when the Group 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 Group 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 Statements 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 Statements 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.

(v) Earnings per unit

Basic earnings per unit is calculated by dividing the total return for the year after tax attributable to unitholders of the Trust by the weighted average number of units outstanding during the year. Diluted earnings per unit is determined by adjusting the total return for the year after tax attributable to unitholders of the Trust and the weighted average number of units outstanding, adjusted for the effects of all dilutive potential units.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 August 2019

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).

4. PLANT AND EQUIPMENT

	Group and Trust	
	2019	2018
	S$'000	S$'000
Cost		
Beginning of financial year	**1,573**	1,522
Additions	**135**	51
End of financial year	**1,708**	1,573
Accumulated depreciation		
Beginning of financial year	**891**	679
Depreciation charge	**187**	212
End of financial year	**1,078**	891
Net book value		
Beginning of financial year	**682**	843
End of financial year	**630**	682

5. INVESTMENT PROPERTIES

	Group		Trust	
	2019	2018	**2019**	2018
	S$'000	S$'000	**S$'000**	S$'000
Beginning of financial year	**3,368,300**	3,278,000	**3,368,300**	3,278,000
Acquisition of investment property[1]	**211,250**	65,955	**–**	65,955
Additions	**3,845**	9,573	**3,635**	9,573
Fair value change	**19,443**	14,772	**33,865**	14,772
Translation differences	**(5,082)**	–	**–**	–
End of financial year	**3,597,756**	3,368,300	**3,405,800**	3,368,300

1 Included acquisition fees and acquisition related expenses of S$14.422 million (2018: S$2.717 million).

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 August 2019

5. INVESTMENT PROPERTIES (CONT'D)

In determining the fair value, the independent external 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 24(h).

The net change in fair value of the investment properties has been recognised in the Statements of Total Return in accordance with the Trust's accounting policies.

At 31 August 2019, investment properties with a carrying amount of approximately S$2,937 million (2018: S$2,719 million) are mortgaged to banks as security for the term loans (Note 10).

6. INVESTMENT IN SUBSIDIARY

	Trust	
	2019	2018
	S$'000	S$'000
Equity investment at cost	**981**	–

Details of the subsidiaries are as follows:

Name of subsidiaries	Country of Incorporation	Effective Interests held by the Group	
		2019	2018
		%	%
Held by the Trust			
SPH REIT (Investments) Pte. Ltd.[1]	Singapore	**100**	–
Held through subsidiaries			
Held by SPH REIT (Investments) Pte. Ltd.			
SPH REIT Australia Trust[2]	Australia	**100**	–
Held by SPH REIT Australia Trust			
SPH REIT Moelis Australia Trust[3]	Australia	**85**	–
Held by SPH REIT Moelis Australia Trust			
Figtree Holding Trust[3]	Australia	**85**	–
Held by Figtree Holding Trust			
Figtree Trust[3]	Australia	**85**	–

1 Audited by KPMG LLP Singapore
2 Exempted from statutory audit
3 Audited by KPMG LLP Australia

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 August 2019

6. INVESTMENT IN SUBSIDIARY (CONT'D)

Acquisition of subsidiary

On 21 December 2018, the Trust completed its acquisition of Figtree Grove Shopping Centre for a total consideration of approximately S$208.5 million, which include acquisition fees and acquisition related expenses of S$14.4 million. The Trust's acquisition was through a 85% owned subsidiary, SPH REIT Moelis Australia Trust.

From the date of acquisition to 31 August 2019, Figtree Grove Shopping Centre has contributed gross revenue of S$11.4 million and total return of S$5.2 million to the Group's results. If the acquisition had occurred on 1 September 2018, the Manager estimates that the contribution to the Group's gross revenue and total return from Figtree Grove Shopping Centre would have been S$16.4 million and S$7.4 million respectively. In determining this amount, management has assumed that the fair value adjustments that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 September 2018.

Identifiable assets acquired and liabilities assumed

The following table summarises the recognised amounts of assets acquired and liabilities assumed at the acquisition dates.

	2019 S$'000
Investment properties	**196,828**
Trade and other receivables	**191**
Trade and other payables	**(2,974)**
Total identifiable net assets acquired	**194,045**
Total consideration	**194,045**
Add: Acquisition fees and acquisition related expenses	**14,422**
Less: Consideration not yet paid	**(797)**
Total net cash outflow	**207,670**

As at 31 August 2019, the Completion Amount Statement remains under negotiation between SPH REIT Moelis Australia Trust and the vendor.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 August 2019

7. INTANGIBLE ASSET

	2019 S$'000	2018 S$'000
Cost		
Beginning of financial year	**17,500**	17,500
Write off of intangible asset	**(17,500)**	–
End of financial year	**–**	17,500
Accumulated amortisation		
Beginning of financial year	**17,500**	16,000
Amortisation	**–**	624
Write down of intangible asset	**–**	876
Write off of intangible asset	**(17,500)**	–
End of financial year	**–**	17,500
Carrying amounts		
Beginning of financial year	**–**	1,500
End of financial year	**–**	–

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.

In previous financial year, the write down of intangible asset arose due to a lower amount of income support drawdown as a result of better performance of The Clementi Mall.

In current financial year, the intangible asset has been written off.

8. TRADE AND OTHER RECEIVABLES

	Group		**Trust**	
	2019 S$'000	2018 S$'000	**2019 S$'000**	2018 S$'000
Non-current				
Amount owing by subsidiaries	**–**	–	**97,149**	–
Current				
Trade receivables from non-related parties	**4,031**	1,416	**2,232**	1,416
Amount owing by related parties	**9**	540	**9**	540
Other receivables	**156**	756	**94**	756
Deposits	**125**	179	**125**	179
Accrued interest	**17**	14	**17**	14
Prepayments	**508**	182	**126**	182
Other asset	**648**	–	**–**	–
	5,494	3,087	**2,603**	3,087

The amount owing by subsidiaries is non-trade in nature, unsecured, interest free and repayable on demand. The amount is not expected to be repaid in the next 12 months.

The amount owing by related parties is non-trade in nature, unsecured, interest free and repayable on demand.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 August 2019

9. CASH AND CASH EQUIVALENTS

	Group		Trust	
	2019	2018	**2019**	2018
	S$'000	S$'000	**S$'000**	S$'000
Cash held as fixed bank deposit	**298,000**	18,000	**298,000**	18,000
Cash and bank balances	**44,657**	17,965	**38,761**	17,965
	342,657	35,965	**336,761**	35,965

Cash at banks earn interest at floating rates based on daily bank deposit rates ranging from 0% to 2.27% (2018: 0% to 2.22%) and 0% to 2.27% (2018: 0% to 2.22%) per annum for the Group and the Trust respectively. During the current financial year, the Group and the Trust's fixed bank deposit was placed for a month with an interest rate of 2.04% per annum. During the previous financial year, the Group and the Trust's fixed bank deposits were placed for varying periods of generally up to 6 months, with interest rates ranging from 1.16% to 1.83% per annum.

10. BORROWINGS

	Group		Trust	
	2019	2018	**2019**	2018
	S$'000	S$'000	**S$'000**	S$'000
Secured term loans	**1,093,112**	895,000	**995,000**	895,000
Less: Unamortised transaction costs	**(1,973)**	(1,926)	**(1,636)**	(1,926)
	1,091,139	893,074	**993,364**	893,074
Borrowings repayable:				
Within 1 year	**279,625**	209,813	**279,625**	209,813
Between 1 – 5 years	**811,514**	683,261	**713,739**	683,261
	1,091,139	893,074	**993,364**	893,074

The Group and the Trust secured term loans amounted to S$1.1 billion (2018: S$895 million) and S$995 million (2018: S$895 million) respectively.

The exposure of the Group and the Trust to liquidity and interest rate risks related to interest-bearing borrowings are disclosed in note 24.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 August 2019

10. BORROWINGS (CONT'D)

Terms and debt repayment schedule

Terms and conditions of outstanding interest-bearing borrowings are as follows:

	Currency	Weighted average nominal interest rate %	Year to maturity	2019 Face value S$'000	2019 Carrying amount S$'000	2018 Face value S$'000	2018 Carrying amount S$'000
Group							
Fixed rate loans	SGD	2.58	2021 – 2022	**185,000**	**184,736**	250,000	249,553
Fixed rate loan	AUD	3.69	2023	**79,424**	**79,151**	–	–
Floating rate loans	SGD	2.58	2020 – 2024	**810,000**	**808,628**	645,000	643,521
Floating rate loan	AUD	3.05	2023	**18,688**	**18,624**	–	–
Trust							
Fixed rate loans	SGD	2.58	2021 – 2022	**185,000**	**184,736**	250,000	249,553
Floating rate loans	SGD	2.58	2020 – 2024	**810,000**	**808,628**	645,000	643,521

The SGD term loan of S$995 million is secured by way of the following:

- First legal mortgage on Paragon (Note 5)
- First legal charge over the tenancy account and sales proceeds account for Paragon
- Assignment of certain insurances taken in relation to Paragon

The AUD term loan balance of A$105 million is secured by way of mortgage on Figtree Grove Shopping Centre (Note 5).

In respect of bank borrowings, where appropriate, the Group'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 Group 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 Group agreed with other parties to pay/receive 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 2019, the Group and the Trust's fixed rate loan and loans hedged with interest rate swaps amounted to S$718 million (2018: S$625 million) and S$639 million (2018: S$625 million) respectively. The fixed interest rates of the Group and the Trust were from 2.04% to 3.69% (2018: 1.44% to 2.65%) and 2.04% to 3.28% (2018: 1.44% to 2.65%) per annum respectively. The floating rates of SGD term loans are referenced to Singapore dollar swap offer rate and repriced every three months. The floating rate of AUD term loan is referenced to Australian dollar bank bill swap rate and repriced every three months. The effective interest rates of the Group and the Trust as at the reporting date was 2.91% (2018: 2.85%) and 2.86% (2018: 2.85%) per annum respectively.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 August 2019

10. BORROWINGS (CONT'D)

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

	Borrowings S$'000	Interest payable S$'000	Total S$'000
Group			
2019			
Beginning of financial year	**893,074**	**2,509**	**895,583**
Changes from financing cash flows			
Payment of transaction costs related to borrowing	**(478)**	**–**	**(478)**
Proceeds from bank loans (net of transaction costs)	**200,115**	**–**	**200,115**
Interest paid	**–**	**(28,879)**	**(28,879)**
Total changes from financing activities	**199,637**	**(28,879)**	**170,758**
Non-cash changes			
Finance costs	**–**	**29,458**	**29,458**
Amortisation of transaction costs	**1,022**	**–**	**1,022**
Translation differences	**(2,594)**	**–**	**(2,594)**
End of financial year	**1,091,139**	**3,088**	**1,094,227**
2018			
Beginning of financial year	847,427	2,498	849,925
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
Non-cash changes			
Finance costs	–	22,936	22,936
Amortisation of transaction costs	1,552	–	1,552
End of financial year	893,074	2,509	895,583

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 August 2019

11. DERIVATIVE FINANCIAL INSTRUMENTS

	Group and Trust	
	Contract notional amount S$'000	Fair value amount* S$'000
2019		
Non-current assets		
Group: Net investment hedge/ Trust: FVTPL		
– Cross currency interest-rate swaps	**78,904**	**910**
– Cross currency swaps	**19,233**	**955**
	98,137	**1,865**
Non-current liabilities		
Cash flow hedge		
–Interest-rate swaps	**95,000**	**(1,243)**
Current liabilities		
Cash flow hedge		
–Interest-rate swaps	**280,000**	**(1,561)**
2018		
Non-current liabilities		
Cash flow hedge		
–Interest-rate swaps	375,000	(2,814)

The Cross currency interest-rate swaps and Cross currency swaps will be collectively termed as "Cross currency swaps".

The notional principal amounts of the outstanding cross currency interest-rate swaps, cross currency swaps and interest rate swap contracts and their corresponding fair values as at 31 August 2019 are:

	Group and Trust	
	2019	2018
	S$'000	S$'000
Notional due:		
Within 1 year	**280,000**	–
Between 1 – 5 years	**193,137**	375,000
Total	**473,137**	375,000

* The fair values of cross currency interest-rate swaps, cross currency swaps and 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 2019

12. TRADE AND OTHER PAYABLES

	Group		Trust	
	2019	2018	**2019**	2018
	S$'000	S$'000	**S$'000**	S$'000
Non-current				
Deposits received	**34,764**	32,622	**34,764**	32,622
Current				
Trade payable to non-related parties	**2,074**	347	**334**	347
Amount owing to ultimate holding company	**26**	–	**26**	
Amount owing to related parties	**3,963**	2,373	**3,963**	2,373
Amount owing to non-controlling interests	**248**	–	**–**	–
Other payables	**6,414**	7,458	**6,246**	7,458
Accrued expense	**8,598**	6,600	**8,119**	6,600
Interest payable	**3,088**	2,509	**3,088**	2,509
Deposits received	**20,247**	18,572	**20,247**	18,572
Collections in advance	**3,600**	2,718	**3,133**	2,718
	48,258	40,577	**45,156**	40,577

The amount owing to related parties is trade in nature, unsecured, interest-free and repayable on demand. Included in the amount owing to related parties of the Group and the Trust, is an amount of S$1.0 million of manager's management fee for 2019 that is payable in the form of cash.

The amounts owing to ultimate holding company and non-controlling interests are non-trade in nature, unsecured, interest-free and repayable on demand.

13. PERPETUAL SECURITIES HOLDERS' FUND

On 30 August 2019, the Trust issued S$300.0 million of subordinated perpetual securities at a rate of 4.10% per annum, with the first distribution rate reset falling on 30 August 2024 and subsequent resets occurring every five years thereafter. The perpetual securities have no fixed redemption date and redemption is at the option of the Trust in accordance with the terms of issue of the securities. The distribution is payable semi-annually at the discretion of the Trust and is non-cumulative. Accordingly, the perpetual securities are classified as equity. The expenses relating to the issue of the perpetual securities are deducted against the proceeds from the issue.

The perpetual securities are classified as equity instruments and recorded within the Group's and Trust's Statements of Financial Position. As at 31 August 2019, the S$297.9 million (2018: S$ Nil) presented in the Statements of Financial Position represents the carrying value of the S$300.0 million (2018: S$ Nil) perpetual securities issued, net of issue costs and includes the amount reserved for distribution to the perpetual securities holders as at year-end.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 August 2019

14. NON-CONTROLLING INTERESTS

On 21 December 2018, the Group acquired 85% interest in Moelis Australia Trust (refer to Note 6). Accordingly, at the reporting date, the Group only had one subsidiary with non-controlling interest of 15%. The non-controlling interest is not material to the Group.

15. UNITS IN ISSUE

	Trust	
	2019	2018
	'000	'000
Units in issue		
Beginning of financial year	**2,571,845**	2,556,106
Issue of new units:		
– Manager's fee paid in units	**16,856**	15,739
End of financial year	**2,588,701**	2,571,845

During the financial year, the Trust issued 16,856,043 (2018:15,739,303) new units at the issue price range of S$0.9931 to S$1.0411 (2018: S$0.9756 to S$1.0377 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 2019

16. CAPITAL AND OTHER COMMITMENTS

(a) Commitments for capital expenditure

	Group		Trust	
	2019	2018	**2019**	2018
	S$'000	S$'000	**S$'000**	S$'000
Authorised and contracted for				
– investment properties	**530**	1,205	**342**	1,205

(b) Operating lease commitments – where the Group and 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:

	Group		Trust	
	2019	2018	**2019**	2018
	S$'000	S$'000	**S$'000**	S$'000
Within 1 year	**194,649**	187,868	**183,490**	187,868
Between 1 – 5 years	**203,488**	199,760	**171,727**	199,760
After 5 years	**23,374**	–	**235**	–
	421,511	387,628	**355,452**	387,628

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

17. GROSS REVENUE

	Group		Trust	
	2019	2018	**2019**	2018
	S$'000	S$'000	**S$'000**	S$'000
Rental income	**218,532**	202,498	**209,265**	202,498
Car park income	**6,417**	6,305	**6,417**	6,305
Other income	**3,686**	2,999	**1,506**	2,999
	228,635	211,802	**217,188**	211,802

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 August 2019

18. PROPERTY OPERATING EXPENSES

	Group		Trust	
	2019	2018	**2019**	2018
	S$'000	S$'000	**S$'000**	S$'000
Property tax	**19,775**	19,027	**19,477**	19,027
Maintenance and utilities	**12,614**	11,480	**11,001**	11,480
Property management fees	**9,487**	8,590	**8,849**	8,590
Marketing	**3,311**	3,579	**3,210**	3,579
Staff cost	**2,894**	2,626	**2,894**	2,626
Others	**775**	504	**522**	504
	48,856	45,806	**45,953**	45,806

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 Group's payroll as its daily operations and administrative functions are provided by the Manager and the Property Manager.

19. MANAGER'S MANAGEMENT FEES

	Group		Trust	
	2019	2018	**2019**	2018
	S$'000	S$'000	**S$'000**	S$'000
Base fee	**8,875**	8,401	**8,875**	8,401
Performance fee	**8,915**	8,287	**8,915**	8,287
	17,790	16,688	**17,790**	16,688

During financial year 2019, the manager's management fees of the Group and the Trust that are paid/payable in the form of cash amounted to S$1.0 million (2018: S$Nil).

20. TRUST EXPENSES

	Group		Trust	
	2019	2018	**2019**	2018
	S$'000	S$'000	**S$'000**	S$'000
Auditor's remuneration				
– audit fees	**260**	181	**205**	181
– non-audit fees	**66**	55	**66**	55
Valuation expense	**96**	75	**96**	75
Consultancy and other professional fees	**462**	391	**2,796**	391
Other expenses	**591**	431	**526**	431
	1,475	1,133	**3,689**	1,133

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 August 2019

21. FINANCE COSTS

	Group		Trust	
	2019 S$'000	2018 S$'000	**2019 S$'000**	2018 S$'000
Interest on borrowing	**27,909**	19,186	**25,377**	19,186
Amortisation of upfront fee for loan facility	**1,022**	1,552	**943**	1,552
Other financial expenses	**–**	18	**–**	18
Cash flow hedges – loss reclassified from Unitholders' Funds	**1,549**	3,750	**1,549**	3,750
	30,480	24,506	**27,869**	24,506

22. INCOME TAX

	Group		Trust	
	2019 S$'000	2018 S$'000	**2019 S$'000**	2018 S$'000
Withholding tax	**359**	–	**3**	–

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:

	Group		Trust	
	2019 S$'000	2018 S$'000	**2019 S$'000**	2018 S$'000
Total return for the year	**149,180**	137,856	**161,595**	137,856
Tax calculated at tax rate of 17%	**25,361**	23,436	**27,471**	23,436
Expenses not deductible for tax purposes	**3,409**	3,268	**3,682**	3,268
Income not subject to tax due to tax transparency	**(24,441)**	(24,193)	**(24,441)**	(24,193)
Other income not subject to tax	**(703)**	–	**(956)**	–
Fair value change on investment properties	**(3,626)**	(2,511)	**(5,756)**	(2,511)
Withholding tax	**359**	–	**3**	–
	359	–	**3**	–

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 August 2019

23. EARNINGS PER UNIT

Basic and diluted Earnings per Unit are based on:

	Group		Trust	
	2019 S$'000	2018 S$'000	**2019 S$'000**	2018 S$'000
Total return for the year after tax (S$'000)	**149,898**	137,856	**161,558**	137,856
Weighted average number of Units ('000)	**2,588,756**	2,571,862	**2,588,756**	2,571,862
Basic and diluted Earnings per Unit (cents)	**5.79**	5.36	**6.24**	5.36

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

24. FINANCIAL RISK MANAGEMENT

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

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

The Group's debt comprises mainly bank borrowing to finance the acquisition of its investment properties. Where appropriate, the Group 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 Group's borrowings are denominated in SGD and AUD.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 August 2019

24. FINANCIAL RISK MANAGEMENT (CONT'D)

(a) Interest rate risk (cont'd)

Movements in interest rates will therefore have an impact on the Group. If the interest rate change by 0.50% (2018: 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:

	Statements of Total Return		Hedging Reserve	
	Increase S$'000	Decrease S$'000	Increase S$'000	Decrease S$'000
Group				
2019				
Borrowings	**(1,873)**	**1,873**	**–**	**–**
Interest rate swap	**–**	**–**	**3,122**	**(3,168)**
	(1,873)	**1,873**	**3,122**	**(3,168)**
2018				
Borrowings	(1,350)	1,350	–	–
Interest rate swap	–	–	3,829	(3,896)
	(1,350)	1,350	3,829	(3,896)
Trust				
2019				
Borrowings	**(1,780)**	**1,780**	**–**	**–**
Interest rate swap	**–**	**–**	**3,122**	**(3,168)**
	(1,780)	**1,780**	**3,122**	**(3,168)**
2018				
Borrowings	(1,350)	1,350	–	–
Interest rate swap	–	–	3,829	(3,896)
	(1,350)	1,350	3,829	(3,896)

(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 Group. For trade receivables, the Group manages its credit risk through prior assessment of business proposition and credit standing of tenants, and monitoring procedures. Where appropriate, the Group obtains collateral in the form of deposits, and bankers'/insurance guarantees from its tenants. For other financial assets, the Group adopts the policy of dealing only with high credit quality counterparties. As such, management has determined the credit quality of the tenants 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 Statements of Financial Position which comprise mainly trade receivables, and cash balances placed with banks. As at the reporting date, the Group has no significant concentration of credit risks. As at 31 August 2019 and 31 August 2018, all trade receivables were backed by bankers'/insurance guarantees and/or deposits from tenants.

24. FINANCIAL RISK MANAGEMENT (CONT'D)

(b) Credit risk (cont'd)

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date is:

	Group		Trust	
	2019	2018	**2019**	2018
	S$'000	S$'000	**S$'000**	S$'000
Derivative assets (Note 11)				
– Cross currency interest-rate swaps	**910**	–	**910**	–
– Cross currency swaps	**955**	–	**955**	–
Trade and other receivables, exclude prepayments and other assets (Note 8)	**4,338**	2,905	**99,626**	2,905
Cash and cash equivalents	**342,657**	35,695	**336,761**	35,695
	348,860	38,600	**438,252**	38,600

Impairment losses

Comparative information under FRS 39

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

	2018
	S$'000
Group	
Past due 1 to 30 days	1,094
Past due 31 to 60 days	21
Past due 61 to 90 days	67
Past due over 90 days	234
	1,416
Trust	
Past due 1 to 30 days	1,094
Past due 31 to 60 days	21
Past due 61 to 90 days	67
Past due over 90 days	234
	1,416

Expected credit loss assessment for individual tenants as at 1 September 2018 and 31 August 2019

The Group uses an allowance matrix to measure the ECLs of trade receivables from individual tenants, which comprises a very large number of balances.

Loss rates are calculated using a "roll-rate" method based on the probability of a receivable progressing through successive stages of delinquency to write-off and are based on actual credit loss experience over the past three years.

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For the financial year ended 31 August 2019

24. FINANCIAL RISK MANAGEMENT (CONT'D)

(b) Credit risk (cont'd)

Impairment losses (cont'd)

Comparative information under FRS 39 (cont'd)

The following table provides information about the exposure to credit risk for trade receivables for individual tenants as at 31 August 2019:

	Gross carrying amount S$'000	Impairment loss allowance S$'000
2019		
Group		
Current (not past due)	**2,517**	–
Past due 1 to 30 days	**1,063**	–
Past due 31 to 60 days	**63**	–
Past due 61 to 90 days	**104**	–
Past due over 90 days	**284**	–
	4,031	–
Trust		
Current (not past due)	**1,180**	–
Past due 1 to 30 days	**902**	–
Past due 31 to 60 days	**16**	–
Past due 61 to 90 days	**77**	–
Past due over 90 days	**57**	–
	2,232	–

The Group does not have trade receivables for which no loss allowance is recognised because of collateral.

The Manager believes that no allowance for impairment is necessary in respect of trade receivables as these receivables mainly arose from tenants that have a good track record with the Group, and the Group has sufficient security deposits as collateral, and hence ECL is not material.

24. FINANCIAL RISK MANAGEMENT (CONT'D)

(b) Credit risk (cont'd)

Non-trade amounts owing by subsidiaries

The Trust has non-trade receivables from its subsidiaries of S$97,149,000 (2018: S$Nil). These balances are amounts lent to subsidiaries to satisfy their funding requirements. Based on an assessment of qualitative and quantitative factors that are indicative of the risk of default, these exposures are considered to have low credit risk. Therefore impairment on these balances has been measured on the 12-month expected credit loss basis; and the amount of the allowance is insignificant.

Non-trade amounts owing by related parties

The Group and the Trust have non-trade amount owing by related parties of S$9,000 (2018: S$540,000) respectively. Based on an assessment of qualitative and quantitative factors that are indicative of the risk of default, these exposures are considered to have low credit risk. Therefore impairment on these balances has been measured on the 12-month expected credit loss basis; and the amount of the allowance is insignificant.

Derivatives

The derivatives are entered into with bank and financial institution counterparties, which are rated A to AA-, based on Standard & Poor's ratings.

Cash and cash equivalents

Cash and fixed deposits are placed with financial institutions which are regulated. The Group and the Trust held cash and cash equivalents of S$342,657,000 (2018: S$35,965,000) and S$336,761,000 (2018: S$35,965,000) respectively at 31 August 2019. The cash and cash equivalents are held with bank and financial institution counterparties which are rated A to AA-, based on Standard & Poor's ratings.

Impairment on cash and cash equivalents has been measured on the 12-month expected loss basis and reflect the short maturities of the exposures. The Group considers that its cash and cash equivalents have low credit risk based on the external credit ratings of the counterparties. The amount of the allowance on cash and cash equivalents is negligible.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 August 2019

24. FINANCIAL RISK MANAGEMENT (CONT'D)

(c) Liquidity risk

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

The table below analyses the maturity profile of the Group'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
Group				
2019				
Net-settled interest rate swap	**(3,054)**	**(1,913)**	**(1,571)**	**–**
Cross currency swaps				
– Outflow	**(2,813)**	**(2,813)**	**(95,273)**	**–**
– Inflow	**2,437**	**2,437**	**100,108**	**–**
Trade and other payables*	**(44,658)**	**(15,508)**	**(18,868)**	**(388)**
Borrowings	**(308,334)**	**(235,179)**	**(619,830)**	**–**
	(356,422)	**(252,976)**	**(635,434)**	**(388)**
2018				
Net-settled interest rate swap	(2,209)	(866)	35	–
Trade and other payables*	(37,859)	(17,499)	(15,123)	–
Borrowings	(231,051)	(296,379)	(416,869)	–
	(271,119)	(314,744)	(431,957)	–
Trust				
2019				
Net-settled interest rate swap	**(3,054)**	**(1,913)**	**(1,571)**	**–**
Cross currency swaps				
– Outflow	**(2,813)**	**(2,813)**	**(95,273)**	**–**
– Inflow	**2,437**	**2,437**	**100,108**	**–**
Trade and other payables*	**(42,023)**	**(15,508)**	**(18,868)**	**(388)**
Borrowing	**(304,831)**	**(231,676)**	**(517,140)**	**–**
	(350,284)	**(249,473)**	**(532,744)**	**(388)**
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)	–

* Excludes collections in advance

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 August 2019

24. FINANCIAL RISK MANAGEMENT (CONT'D)

(d) Currency risk

The Group is exposed to currency risk on distributions from its Australia operations. In 2019, the Group entered into cross currency swap contracts with a total notional amount of S$98,137,000 (2018: S$Nil) whereby the Group agreed with counterparties to repay its loan interests and principals in Australian Dollar ("AUD") in exchange of receiving Singapore Dollar in return at specified rates, on specified dates.

At the reporting date, the exposure to currency risk is as follows:

	Group		Trust	
	2019 AUD S$'000	2018 AUD S$'000	**2019 AUD S$'000**	2018 AUD S$'000
Cash and cash equivalents	**1,251**	–	**1,251**	–
Statements of Financial Position exposure	**1,251**	–	**1,251**	–
Add: Effect of cross currency swaps	**98,137**	–	**98,137**	–
Less: Cross currency swaps designated for net investment hedge	**(98,137)**	–	**–**	–
Net exposure	**1,251**	–	**99,388**	–

Sensitivity analysis

A 5% strengthening (weakening) of the Singapore Dollar against Australian Dollar would increase/(decrease) total return (before any tax effects) by the amounts shown below. This analysis assumes that all other variables remain constant.

	Group		Trust	
	2019 S$'000	2018 S$'000	**2019 S$'000**	2018 S$'000
Statements of Total Return				
5% strengthening	**63**	–	**4,969**	–
5% weakening	**(63)**	–	**(4,969)**	–

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 August 2019

24. FINANCIAL RISK MANAGEMENT (CONT'D)

(e) 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$'000	Gross amount of recognised financial instruments offset in the Statements of Financial Position S$'000	Net amount of financial instruments presented in the Statements of Financial Position S$'000	Related amount not offset in the Statements of Financial Position S$'000	Net amount S$'000
Group and Trust					
2019					
Financial Assets					
Cross currency interest-rate swaps	**910**	**–**	**910**	**–**	**910**
Cross currency swaps	**955**	**–**	**955**	**–**	**955**
Financial Liabilities					
Interest rate swaps	**(2,804)**	**–**	**(2,804)**	**–**	**(2,804)**
2018					
Financial Liabilities					
Interest rate swaps	(2,814)	–	(2,814)	–	(2,814)

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 August 2019

24. FINANCIAL RISK MANAGEMENT (CONT'D)

(f) Hedge Accounting

Cash flow hedges

As at 31 August 2019, the Group and the Trust held the following instruments to hedge exposures to changes in interest rate.

	Maturity		
	Within 1 year	Within 2 to 5 years	More than 5 years
Group and Trust			
Interest rate risk			
Interest rate swaps			
Net exposure (in $'000)	280,000	95,000	–
Average fixed interest rate	2.28	2.12	–
Cross currency interest rate swaps			
Net exposure (in $'000)	–	78,904	–
Average fixed interest rate	–	3.18	–

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 August 2019

24. FINANCIAL RISK MANAGEMENT (CONT'D)

(f) Hedge Accounting (cont'd)

Cash flow hedges (cont'd)

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

	2019			
	Nominal amount $'000	Carrying amount (assets) $'000	Carrying amount (liabilities) $'000	Line item in the Statements of Financial Position where the hedging instrument is included
Group and Trust				
Cross currency interest rate swap	78,904	–	(1,756)	Derivative financial instruments
Interest rate swaps	375,000	–	(2,804)	Derivative financial instruments

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 August 2019

	During the period - 2019					
	Change in the fair value of the hedging instrument used for calculating hedge ineffectiveness for 2019 $'000	Hedging (gains) or losses recognised in Unitholder's Fund $'000	Hedge ineffectiveness recognised in Statements of Total Return $'000	Line item in profit or loss that includes hedge ineffectiveness	Amounts reclassified from Hedging Reserve to Statements of Total Return $'000	Line item in profit or loss affected by the reclassification
	1,756	1,756	–	Not applicable	–	Not applicable
	1,539	1,539	–	Not applicable	(1,549)	Finance costs

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 August 2019

24. FINANCIAL RISK MANAGEMENT (CONT'D)

(f) Hedge Accounting (cont'd)

Net investment hedge

A foreign currency exposure arises from the Group's net investment in its subsidiary in Australia that has a AUD functional currency. The risk arises from the fluctuation in spot exchange rates between the AUD and the SGD, which causes the amount of the net investment to vary.

The hedged risk in the net investment hedges is the risk of a weakening AUD against the SGD that will result in a reduction in the carrying amount of the Group's net investment in its subsidiary in Australia.

Part of the Group's net investment is hedged through the use of AUD denominated cross currency interest rate swaps. The Group entered into cross currency interest rate swaps to swap fixed rate SGD loans for fixed rate AUD obligations.

The amounts related to items designated as hedging instruments were as follows:

	2019			
	Nominal amount $'000	Carrying amount (assets) $'000	Carrying amount (liabilities) $'000	Line item in the Statements of Financial Position where the hedging instrument is included
Group				
Cross currency swaps	98,137	3,621	–	Derivative financial instruments

The amounts related to items designated as hedged items were as follows:

	2019
	Change in value of the hedged item used for calculating hedge ineffectiveness $'000
AUD net investment	3,682

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 August 2019

	During the period – 2019					
	Change in the fair value of the hedging instrument used for calculating hedge ineffectiveness for 2019 $'000	Hedging (gains) or losses recognised in Unitholder's Fund $'000	Hedge ineffectiveness recognised in Statements of Total Return $'000	Line item in profit or loss that includes hedge ineffectiveness	Amounts reclassified from Hedging Reserve to Statements of Total Return $'000	Line item in profit or loss affected by the reclassification
	(3,621)	(3,621)	–	Not applicable	–	Not applicable

During the period – 2019	
Foreign currency translation reserve $'000	Balances remaining in the foreign currency translation reserve from hedging relationships for which hedge accounting is no longer applied $'000
(3,621)	–

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 August 2019

24. FINANCIAL RISK MANAGEMENT (CONT'D)

(g) Capital management

The Group's objectives for managing capital are to safeguard the Group'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 Group may issue new units or obtain new borrowings.

The Group 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 Group has a gearing of 27.5% (2018: 26.3%), and is in compliance with the Aggregate Leverage limit of 45% (2018: 45%).

(h) 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
Group				
2019				
Assets				
Investment properties	**–**	**–**	**3,597,756**	**3,597,756**
Derivative financial instruments	**–**	**1,865**	**–**	**1,865**
Liabilities				
Derivative financial instruments	**–**	**(2,804)**	**–**	**(2,804)**
2018				
Assets				
Investment properties	–	–	3,368,300	3,368,300
Liabilities				
Derivative financial instruments	–	(2,814)	–	(2,814)

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 August 2019

24. FINANCIAL RISK MANAGEMENT (CONT'D)

(h) Fair value measurements (cont'd)

***Fair value hierarchy** (cont'd)*

	Level 1 S$'000	Level 2 S$'000	Level 3 S$'000	Total S$'000
Trust				
2019				
Assets				
Investment properties	**–**	**–**	**3,405,800**	**3,405,800**
Derivative financial instruments	**–**	**1,865**	**–**	**1,865**
Liabilities				
Derivative financial instruments	**–**	**(2,804)**	**–**	**(2,804)**
2018				
Assets				
Investment properties	–	–	3,368,300	3,368,300
Liabilities				
Derivative financial instruments	–	(2,814)	–	(2,814)

Level 2

The fair value of interest rate swap contracts and cross currency 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 2019

24. FINANCIAL RISK MANAGEMENT (CONT'D)

(h) Fair value measurements (cont'd)

Fair value hierarchy (cont'd)

Description	Valuation technique(s)	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurement
Investment properties	Discounted cash flow	Discount rate 6.50% – 8.00% (2018: 6.50% – 8.00%) Terminal Yield 4.00% – 6.50% (2018: 4.00% – 6.50%)	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.
	Income capitalisation	Capitalisation rate 3.75% to 6.00% (2018: 3.75% to 6.00%)	

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 2019

24. FINANCIAL RISK MANAGEMENT (CONT'D)

(i) Financial instruments by category

	Fair value – hedging instruments S$'000	Amortised cost S$'000	Other financial liabilities S$'000	Total S$'000
Group				
2019				
Assets				
Derivative financial instruments	**1,865**	**–**	**–**	**1,865**
Trade and other receivables[1]	**–**	**4,338**	**–**	**4,338**
Cash and cash equivalents	**–**	**342,657**	**–**	**342,657**
	1,865	**346,995**	**–**	**348,860**
Liabilities				
Trade and other payables[2]	**–**	**–**	**(79,422)**	**(79,422)**
Borrowing	**–**	**–**	**(1,091,139)**	**(1,091,139)**
Derivative financial instruments	**(2,804)**	**–**	**–**	**(2,804)**
	(2,804)	**–**	**(1,170,561)**	**(1,173,365)**

	Fair value – hedging instruments S$'000	Loans and receivables S$'000	Other financial liabilities S$'000	Total S$'000
Group				
2018				
Assets				
Trade and other receivables[1]	–	2,905	–	2,905
Cash and cash equivalents	–	35,965	–	35,965
	–	38,870	–	38,870
Liabilities				
Trade and other payables[2]	–	–	(70,481)	(70,481)
Borrowing	–	–	(893,074)	(893,074)
Derivative financial instruments	(2,814)	–	–	(2,814)
	(2,814)	–	(963,555)	(966,369)

1 Excludes prepayments
2 Excludes collections in advance

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 August 2019

24. FINANCIAL RISK MANAGEMENT (CONT'D)

(i) Financial instruments by category (cont'd)

	Fair value – hedging instruments S$'000	Amortised cost S$'000	Other financial liabilities S$'000	Total S$'000
Trust				
2019				
Assets				
Derivative financial instruments	**1,865**	**–**	**–**	**1,865**
Trade and other receivables[1]	**–**	**99,626**	**–**	**99,626**
Cash and cash equivalents	**–**	**336,761**	**–**	**336,761**
	1,865	**436,387**	**–**	**438,252**
Liabilities				
Trade and other payables[2]	**–**	**–**	**(76,787)**	**(76,787)**
Borrowing	**–**	**–**	**(993,364)**	**(993,364)**
Derivative financial instruments	**(2,804)**	**–**	**–**	**(2,804)**
	(2,804)	**–**	**(1,070,151)**	**(1,072,955)**

	Fair value – hedging instruments S$'000	Loans and receivables S$'000	Other financial liabilities S$'000	Total S$'000
Trust				
2018				
Assets				
Trade and other receivables[1]	–	2,905	–	2,905
Cash and cash equivalents	–	35,965	–	35,965
	–	38,870	–	38,870
Liabilities				
Trade and other payables[2]	–	–	(70,481)	(70,481)
Borrowing	–	–	(893,074)	(893,074)
Derivative financial instruments	(2,814)	–	–	(2,814)
	(2,814)	–	(963,555)	(966,369)

1 Excludes prepayments
2 Excludes collections in advance

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 August 2019

25. RELATED PARTIES TRANSACTIONS

For the purposes of these financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the parties or exercise significant influence over the parties in making financial and operating decisions, or vice versa, or where the Group 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 Group.

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:

	Group	
	2019	2018
	S$'000	S$'000
Manager's management fees paid to a related company	**17,790**	16,688
Manager's acquisition fees paid to a related company	**1,694**	632
Property management fees paid/payable to a related company	**9,487**	8,590
Property management fees paid/payable to non-controlling interests	**542**	–
Income support received/receivable from related company	**–**	624
Trustee's fees paid/payable to the Trustee	**520**	487
Staff reimbursements paid/payable to a related company	**2,894**	2,622
Rental and other income received/receivable from related companies	**758**	1,411
Other expenses paid/payable to related companies	**638**	1,074

26. 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 Group.

Segment revenue comprises mainly of income generated from each segment's 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, Group expenses, finance income and finance expenses.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 August 2019

26. OPERATING SEGMENTS (CONT'D)

	Paragon S$'000	The Clementi Mall S$'000	The Rail Mall S$'000	Figtree Grove[1] S$'000	Total S$'000
2019					
Result					
Gross revenue	170,397	41,849	4,942	11,447	228,635
Property operating expenses	(34,373)	(10,509)	(1,071)	(2,903)	(48,856)
Segment net property income	136,024	31,340	3,871	8,544	179,779
Unallocated amounts:					
Manager's management fees					(17,790)
Investment management fees					(542)
Trustee's fee					(520)
Other Group expenses					(1,475)
Finance income					765
Finance costs					(30,480)
Net income					129,737
Fair value change on investment properties	23,395	10,231	239	(14,422)	19,443
Total return for the year before taxes and distribution					149,180
Less: income tax					(359)
Total return for the year after taxes and before distribution					148,821
Segment assets	2,745,527	597,103	63,800	191,956	3,598,386
Segment assets includes:					
– Plant and equipment	527	103	–	–	630
– Investment properties	2,745,000	597,000	63,800	191,956	3,597,756
Unallocated assets					350,016
Total assets					3,948,402
Segment liabilities	43,468	10,385	1,158	–	55,011
Unallocated liabilities:					
– Borrowings					1,091,139
– Others					30,815
Total liabilities					1,176,965
Other information					
Additions to:					
– Plant and equipment	50	85			135
– Investment properties	2,605	769	261	210	3,845
Acquisition of investment property	–	–	–	211,250	211,250
Depreciation of plant and equipment	(154)	(33)	–	–	(187)

1 Figtree Grove Shopping Centre was acquired on 21 December 2018. Total acquisition cost of S$211.2 million included acquisition fees and acquisition related expenses (Note 5).

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 August 2019

26. OPERATING SEGMENTS (CONT'D)

	Paragon S$'000	The Clementi Mall S$'000	The Rail Mall[2] 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 Group 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:				
– Borrowings				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)

2 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 2019

26. OPERATING SEGMENTS (CONT'D)

Geographical information

In presenting information on the basis of geographical segments, segment revenue and segment assets are based on the geographical location of the corresponding investment properties.

	Group	
	2019	2018
	S$'000	S$'000
Revenue		
Singapore	**217,188**	211,802
Australia	**11,447**	–
	228,635	211,802
Non-current assets[1]		
Singapore	**3,406,430**	3,368,982
Australia	**191,956**	–
	3,598,386	3,368,982

[1] Non-current assets exclude financial instruments

27. FINANCIAL RATIOS

	Group	
	2019	2018
	%	%
Ratio of expenses to weighted average net assets value[1]		
– including performance component of Manager's management fees	**0.78**	0.75
– excluding performance component of Manager's management fees	**0.44**	0.41
Total operating expenses to net asset value[2]	**2.44**	2.58
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 Group, 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 Group expressed as a percentage of weighted average net asset value. The portfolio turnover rate was nil for the year ended 31 August 2019 and 31 August 2018, as there were no sales of investment properties.

28. NEW OR REVISED ACCOUNTING STANDARDS AND INTERPRETATIONS

A number of new standards and interpretations and amendments to standards are effective for annual periods beginning after 1 September 2019 and earlier application is permitted; however, the Group has not early adopted the new or amended standards and interpretations in preparing these financial statements.

The following new FRSs, interpretations and amendments to FRSs are effective for annual periods beginning after 1 September 2019.

Applicable to the 2020 financial statements

- FRS 116 *Leases*
- INT-FRS 123 *Uncertainty over Income Tax Treatments*
- *Long-term Interests in Associates and Joint Ventures* (FRS 28)
- *Prepayment Features with Negative Compensation* (Amendments to FRS 109)
- *Previously Held Interest in a Joint Operation* (Amendments to FRS 103 and 111)
- *Income Tax Consequences of Payments on Financial Instruments Classified as Equity* (Amendments to FRS 12)
- *Borrowing Costs Eligible for Capitalisation* (Amendments to FRS 23)

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

FRS 116

FRS 116 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use ("ROU") asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases. FRS 116 replaces existing lease accounting guidance, including FRS 17 *Leases*, INT-FRS 104 *Determining whether an Arrangement contains a Lease*, INT-FRS 15 *Operating Leases – Incentives* and INT-FRS 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard is effective for annual periods beginning on or after 1 January 2019, with early adoption permitted.

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

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 August 2019

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

FRS 116 (cont'd)

(i) The Group as lessee

The Group and the Trust expect to measure lease liabilities by applying a single discount rate to their portfolio. Furthermore, the Group and the Trust are likely to apply the practical expedient to recognise amounts of ROU assets equal to their lease liabilities at 1 September 2019. For lease contracts that contain the option to renew, the Group and the Trust are expected to use hindsight in determining the lease term.

The Group and the Trust expect their existing operating lease arrangements to be recognised as ROU assets with corresponding lease liabilities under FRS 116. Lease payments that are increased periodically to reflect market rentals, and those that are based on changes in local price index, are included in the measurement of lease liabilities as at date of initial application. In addition, the Group will no longer recognise provisions for operating leases that it assessed to be onerous. Instead, the Group will include the payments due under the lease in their lease liability.

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

(ii) The Group as lessor

FRS 116 substantially carries forward the current existing lessor accounting requirements. Accordingly, the Group continues to classify its leases as operating leases, and to account for these leases using the existing operating lease accounting model. However, FRS 116 requires more extensive disclosures to be provided by a lessor.

29. SUBSEQUENT EVENT

Subsequent to the reporting date, the Manager announced a distribution of 1.46 cents per unit, for the quarter from 1 June 2019 to 31 August 2019.

30. AUTHORISATION OF FINANCIAL STATEMENT

The financial statements were authorised for issue by the Manager and the Trustee on 10 October 2019.