FINANCIAL STATEMENTS

REPORT OF THE TRUSTEE

For the period from 9 July 2013 (date of constitution) to 31 August 2014

DBS Trustee Limited (the "Trustee") is under a duty to take into custody and hold the assets of SPH REIT (the "Trust") held by it in trust for the holders ("Unitholders") of units in the Trust (the "Units"). In accordance with the Securities and Futures Act, Chapter 289 of Singapore, its subsidiary legislation and the Code on Collective Investment Schemes, the Trustee shall monitor the activities of SPH REIT Management Pte. Ltd. (the "Manager") for compliance with the limitations imposed on the investment and borrowing powers as set out in the trust deed dated 9 July 2013 between the Manager and the Trustee in each annual accounting period and report thereon to Unitholders in an annual report.

To the best knowledge of the Trustee, the Manager has, in all material respects, managed the Trust during the period covered by these financial statements, set out on pages 81 to 113 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
13 October 2014

STATEMENT BY THE MANAGER

For the period from 9 July 2013 (date of constitution) to 31 August 2014

In the opinion of the directors of SPH REIT Management Pte. Ltd., the accompanying financial statements of SPH REIT (the "Trust") set out on pages 81 to 113, comprising the Balance Sheet, Statement of Total Return, Distribution Statement, Statement of Changes in Unitholders' Funds, the Statement of Cash Flows, Portfolio Statement of the Trust, and Notes to the Financial Statements have been drawn up so as to present fairly, in all material respects, the financial position of the Trust as at 31 August 2014, and the total return, distributable income and changes in Unitholders' funds and cash flows of the Trust for the period from 9 July 2013 (date of constitution) to 31 August 2014 in accordance with the recommendations of *Statement of Recommended Accounting Practice 7 "Reporting Framework for Unit Trusts"* issued by the Institute of Singapore Chartered Accountants and the provisions of the Trust Deed. At the date of this statement, there are reasonable grounds to believe that the Trust will be able to meet their financial obligations as and when they materialise.

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

Leong Horn Kee
Chairman

Anthony Mallek
Director

Singapore
13 October 2014

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 have audited the accompanying financial statements of SPH REIT (the "Trust"), which comprise the Balance Sheet and Portfolio Statement of the Trust as at 31 August 2014, and the Statement of Total Return, Distribution Statement and Statement of Changes in Unitholders' Funds and the Statement of Cash Flows for the period from 9 July 2013 (date of constitution) to 31 August 2014, and a summary of significant accounting policies and other explanatory information, as set out on pages 81 to 113.

Manager's responsibility for the financial statements

The Manager of the Trust ("the Manager") is responsible for the preparation and fair presentation of these financial statements in accordance with the recommendations of *Statement of Recommended Accounting Practice 7 "Reporting Framework for Unit Trusts"* issued by the Institute of Singapore Chartered Accountants, and for such internal control as the Manager determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Singapore Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Trust's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Trust's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Manager, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements of the Trust present fairly, in all material respects, the financial position of the Trust as at 31 August 2014 and the total return, distributable income, changes in unitholders' funds and cash flows of the Trust for the period 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.

KPMG LLP

Public Accountants and Chartered Accountants

Singapore

13 October 2014

BALANCE SHEET
As at 31 August 2014

	Note	31 August 2014 S$'000
Non-current assets		
Plant and equipment	4	1,055
Investment properties	5	3,159,000
Intangible asset	6	12,408
		3,172,463
Current assets		
Trade and other receivables	7	5,912
Cash and cash equivalents	8	90,658
		96,570
Total assets		3,269,033
Non-current liabilities		
Borrowing	9	843,125
Derivative financial instruments	10	8,758
Trade and other payables	11	28,953
		880,836
Current liabilities		
Trade and other payables	11	35,131
		35,131
Total liabilities		915,967
Net assets attributable to Unitholders		2,353,066
Represented by:		
Unitholders' funds		**2,353,066**
Units in issue ('000)	13	**2,514,276**
Net asset value per unit ($)		**0.93**

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

STATEMENT OF TOTAL RETURN

For the period from 9 July 2013 (date of constitution) to 31 August 2014

	Note	2014 S$'000
Gross revenue	15	222,921
Property operating expenses	16	(57,011)
Net property income		**165,910**
Income support		5,092
Amortisation of intangible asset		(5,092)
Manager's management fees	17	(17,125)
Trustee's fees		(518)
Other trust expenses	18	(1,230)
Finance income		219
Finance costs	19	(21,898)
Net income		**125,358**
Fair value change on investment properties	5	102,603
Total return for the period before taxes and distribution		**227,961**
Less: income tax	20	–
Total return for the period after taxes and before distribution		**227,961**
Earnings per unit (cents)		
Basic and diluted	21	9.09

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

DISTRIBUTION STATEMENT

For the period from 9 July 2013 (date of constitution) to 31 August 2014

		2014 S$'000
Amount available for distribution to Unitholders at beginning of the period		–
Net income		125,358
Add: Net tax adjustments (Note A)		24,987
Total amount distributable to Unitholders for the period		150,345
Distribution to Unitholders during the period		
– Distribution of 1.86 cents per unit for the period from 24 July 2013 to 30 November 2013	(46,519)	
– Distribution of 1.39 cents per unit for the period from 1 December 2013 to 28 February 2014	(34,840)	
– Distribution of 1.35 cents per unit for the period from 1 March 2014 to 31 May 2014	(33,891)	
		(115,250)
Amount available for distribution to Unitholders at end of the period		35,095

<u>Note A – Net tax adjustments</u>

Non-tax deductible items:	
– Manager's management fees	17,125
– Trustee's fees	518
– Amortisation of intangible asset	5,092
– Amortisation of upfront fee for loan facility	2,125
– Depreciation of plant and equipment	127
Net tax adjustments	**24,987**

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

STATEMENT OF CHANGES IN UNITHOLDERS' FUNDS

For the period from 9 July 2013 (date of constitution) to 31 August 2014

	2014 S$'000
Balance as at beginning of period	–
Operations	
Total return for the period/net increase in assets resulting from operations	227,961
Hedging reserve	
Effective portion of changes in fair value of cash flow hedges	(8,758)
Unitholders' transactions	
Issue of new units on listing	2,250,896
Issue expenses	(18,908)
Distribution to unitholders	(115,250)
Manager's fee paid/payable in units	17,125
	2,133,863
Balance as at end of period	**2,353,066**

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

STATEMENT OF CASH FLOWS

For the period from 9 July 2013 (date of constitution) to 31 August 2014

	2014 S$'000
Cash flows from operating activities	
Total return for the period	227,961
Adjustments for:	
Fair value change on investment properties	(102,603)
Manager's fee paid/payable in units	17,125
Depreciation of plant and equipment	127
Finance income	(219)
Finance costs	21,898
Amortisation of intangible asset	5,092
Operating cash flow before working capital changes	169,381
Changes in operating assets and liabilities	
Trade and other receivables	(5,893)
Trade and other payables	61,497
Net cash from operating activities	**224,985**
Cash flows from investing activities	
Acquisition of investment properties	(1,306,000)
Capital expenditure on investment properties	(2,729)
Acquisition of intangible asset	(17,500)
Purchase of plant and equipment	(1,178)
Interest received	214
Net cash used in investing activities	**(1,327,193)**
Cash flows from financing activities	
Proceeds from issue of units	503,896
Issue expenses paid	(18,908)
Proceeds from bank loan (net of transaction costs)	840,965
Distribution to unitholders	(115,250)
Interest paid	(17,837)
Net cash from financing activities	**1,192,866**
Net increase in cash and cash equivalents	**90,658**
Cash and cash equivalents at beginning of the period	–
Cash and cash equivalents at end of the period	**90,658**

Significant non-cash transactions

SPH REIT acquired Paragon and The Clementi Mall from Orchard 290 Ltd and CM Domain Pte Ltd respectively on 24 July 2013 (listing date). The acquisition was partially settled by way of issuance of units in the Trust amounting to S$1,747,000,000.

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

PORTFOLIO STATEMENT

For the period from 9 July 2013 (date of constitution) to 31 August 2014

Description of Property	Location	Tenure of Land	Term of Lease
Paragon	290 Orchard Road, Singapore 238859	Leasehold	99 years, commencing on 24 Jul 2013 (Listing date)
The Clementi Mall	3155 Commonwealth Avenue West, Singapore 129588	Leasehold	99 years, commencing on 31 Aug 2010

Portfolio of investment properties

Other assets and liabilities (net)

Unitholders' funds

The carrying amount of the investment properties were based on independent valuations as at 31 August 2014 conducted by DTZ Debenham Tie Leung (SEA) Pte Ltd ("DTZ"). DTZ has appropriate professional qualifications and experience in the locations and category of the properties being valued. The valuations of the investment properties were based on the discounted cash flow and capitalisation methods. The net change in fair value has been recognised in the Statement of Total Return.

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

Remaining Term of Lease 31 August 2014	Occupancy Rate as at 31 August 2014 (%)	At Acquisition 24 July 2013 S$'000	At Valuation 31 August 2014 S$'000	Percentage of Unitholders' funds 31 August 2014 (%)
98 years	100.0	2,500,000	2,588,000	110
95 years	100.0	553,000	571,000	24
			3,159,000	134
			(805,934)	(34)
			2,353,066	**100**

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

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, (the "Trust Deed") between SPH REIT Management Pte. Ltd. (the "Manager") and DBS Trustee Limited (the "Trustee"). The Trust Deed is governed by the laws of the Republic of Singapore. The Trustee is under a duty to take into custody and hold the assets of the Trust held by it in trust for the holders ("Unitholders") of units in the Trust (the "Units").

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

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

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

(a) Trustee's fees

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

(b) Manager's management fees

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

(i) a base fee of 0.25% per annum of the value of Deposited Property; and

(ii) an annual performance fee of 5% 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, quarterly in arrears. The Management fees payable in units will be issued 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 relevant Business Day.

For the period from 24 July 2013 (listing date) to 31 August 2014, the Manager has elected to receive 100% of Management fees in units.

1. GENERAL INFORMATION (CONT'D)

(c) 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 2014, the property management fees are payable in cash.

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"* issued by the Institute of Singapore Chartered Accountants, and the applicable requirements of the Code on Collective Investment Schemes (the "CIS Code") issued by the Monetary Authority of Singapore ("MAS") and the provisions of the Trust Deed. RAP 7 requires the accounting policies adopted to generally comply with the recognition and measurement principles of Singapore Financial Reporting Standards.

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

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

(b) Functional and presentation currency

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

(c) Currency translation

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(d) Investment properties

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

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

Fair values are determined in accordance with the Trust Deed, which requires the investment properties to be valued by independent registered valuers at least once a year, in accordance with the CIS Code.

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

(e) Plant and equipment

(i) Measurement

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

(ii) Depreciation

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

Plant and equipment	3 – 10 years

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

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

(iii) Subsequent expenditure

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

(iv) Disposal

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(f) Intangible assets

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

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

(g) Cash and cash equivalent

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

(h) Financial assets

(i) Classification

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

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are presented as current assets, except for those expected to be realised later than 12 months after the balance sheet 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 Trust commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Trust has transferred substantially all risks and rewards of ownership. On disposal of a financial asset, the difference between the net sale proceeds and its carrying amount is recognised in the statement of total return. Any amount in the fair value reserve relating to that asset is also transferred to the statement of total return.

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

(iii) Initial measurement

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

(iv) Subsequent measurement

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(h) Financial assets (Cont'd)

(v) Impairment

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

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

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

(i) Derivative financial instruments and hedging activities

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

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

The Trust designates its derivatives for hedging purposes as either hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge), or hedges of highly probable forecast transactions (cash flow hedge). The Trust has no fair value hedge at balance sheet date.

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

The carrying amount of a derivative designated as a hedge is presented as a non-current asset or liability if the remaining expected life of the hedged item is more than 12 months, and as a current asset or liability if the remaining expected life of the hedged item is less than 12 months.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

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

(i) Cash flow hedge

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

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

(ii) Derivatives that do not qualify for hedge accounting

Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the statement 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 at the balance sheet 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 balance sheet 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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(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.

If the recoverable amount of the asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount.

The difference between the carrying amount and recoverable amount is recognised as an impairment loss in the statement of total return.

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

(l) Units and unit issuance expenses

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

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

(m) Revenue recognition

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

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

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

(ii) Interest income is recognised using the effective interest method.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(n) Income taxes

Current income tax for current and prior periods 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 balance sheet date.

Deferred income 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 income 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 income tax is measured:

(i) at the tax rates that are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date; and

(ii) based on the tax consequence that will follow from the manner in which the Trust expects, at the balance sheet date, to recover or settle the carrying amounts of its assets and liabilities.

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

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

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

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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(n) Income taxes (Cont'd)

A "Qualifying Unitholder" is a Unitholder who is:

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

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

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

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

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

(o) Distribution policy

Distributions for the period from 24 July 2013 (listing date) to 31 August 2014 will be based on 100% of the Trust's 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. Thereafter, the Trust will distribute at least 90% of its specified taxable income.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(p) Expenses

(i) Trustee's fees

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

(ii) Manager's management fees

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

(iii) Property operating expenses

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

(iv) Borrowing costs

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

(q) Borrowing

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

Borrowing is presented as a current liability unless the Trust has an unconditional right to defer settlement for at least 12 months after the balance sheet 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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(s) Provisions

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

(t) Operating leases – as a lessor

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

(u) Segment reporting

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

3. CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS

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

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

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

4. PLANT AND EQUIPMENT

	2014 S$'000
Cost	
At 9 July 2013 (date of constitution)	–
Additions	1,182
At 31 August 2014	1,182
Accumulated Depreciation	
At 9 July 2013 (date of constitution)	–
Depreciation charge for the period	127
At 31 August 2014	127
Net Book Value	
At 9 July 2013 (date of constitution)	–
At 31 August 2014	1,055

5. INVESTMENT PROPERTIES

	2014 S$'000
Cost	
At 9 July 2013 (date of constitution)	–
Acquisition	3,053,000
Additions	3,397
Fair value change	102,603
At 31 August 2014	3,159,000

The fair value of the investment properties as at balance sheet date was stated based on independent professional valuations by DTZ Debenham Tie Leung (SEA) Pte Ltd. In determining the fair value, the valuers have used discounted cash flow analysis and capitalisation approach. The discounted cash flow analysis involves an assessment of the annual net income streams over an assumed investment horizon and discounting these net income streams with an internal rate of return. The capitalisation approach estimates the gross rent income at a mature sustainable basis from which total expenses have been deducted and net income capitalised at an appropriate rate. Details of valuation techniques and inputs used are disclosed in Note 23 (f).

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

The Paragon on Orchard Road, with a carrying value of S$2,588 million, is mortgaged to banks as security for the loan facility of S$850 million [Note 9].

6. INTANGIBLE ASSET

	2014 S$'000
Cost	
At 9 July 2013 (date of constitution)	–
Additions	17,500
At 31 August 2014	17,500
Accumulated amortisation	
At 9 July 2013 (date of constitution)	–
Amortisation for the year	5,092
At 31 August 2014	5,092
Carrying amounts	
At 9 July 2013 (date of constitution)	–
At 31 August 2014	12,408

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 has a remaining period of approximately 4 years.

7. TRADE AND OTHER RECEIVABLES

	2014 S$'000
Current	
Trade receivables from non-related parties	1,935
Amount owing by related parties	2,861
Other receivables	886
Deposits	114
Accrued interest	5
Prepayments	111
	5,912

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

8. CASH AND CASH EQUIVALENTS

	2014 S$'000
Cash held as fixed bank deposit	20,000
Cash and bank balances	70,658
	90,658

Cash at banks earn interest at floating rates based on daily bank deposit rates ranging from 0% to 0.42% per annum. During the financial period, fixed bank deposits were placed for varying periods of generally under 2 months, with interest rate ranging from 0.12% to 0.46% per annum.

9. BORROWING

	2014 S$'000
Secured term loan	850,000
Less: Unamortised transaction costs	(6,875)
	843,125

On 24 July 2013, the Trust established a term loan facility available for drawdown up to the amount of S$975 million. As at the balance sheet date, the amount drawn down was S$850 million. The amount of S$843.1 million represented the loan stated at amortised cost. The loan has repayment terms ranging from three to seven years, of which S$250 million is repayable on 23 July 2016, S$300 million on 23 July 2018 and S$300 million on 22 July 2020.

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

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

As at 31 August 2014, fixed rate loan and interest rate swaps amounted to S$465 million. The fixed interest rates were from 1.44% to 2.31% per annum. The floating rates are referenced to Singapore dollar swap offer rate and repriced every three months. The effective interest rate as at the balance sheet date on the outstanding term loan of S$850 million was 2.33% per annum.

The notional principal amounts of the outstanding interest rate swap contracts and their corresponding fair values as at 31 August 2014 are:

	2014 S$'000
Notional due (Note 10):	
Between 1 – 5 years	35,000
After 5 years	280,000
	315,000
Fair values* (Note 10)	(8,758)

* The fair values of interest rate swap contracts had been calculated (using rates quoted by the Trust's bankers) assuming the contracts are terminated at the balance sheet date.

10. DERIVATIVE FINANCIAL INSTRUMENTS

Analysed as:

	Contract Notional Amount S$'000	Fair Value Liabilities S$'000
2014		
Non-current		
Cash flow hedge		
– Interest-rate swaps [Note 9]	315,000	8,758

11. TRADE AND OTHER PAYABLES

	2014 S$'000
Non-current	
Deposits received	28,953
Current	
Trade payable to non-related parties	197
Amount owing to related parties	2,628
Other payables	7,916
Accrued expense	5,162
Interest payable	1,917
Deposits received	16,546
Collections in advance	765
	35,131

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

12. HEDGING RESERVE

	2014 S$'000
At 9 July 2013 (date of constitution)	–
Fair value change	15,518
Transferred to finance costs	(6,760)
At 31 August 2014	8,758

13. UNITS IN ISSUE

	2014 '000
Units in issue	
At 9 July 2013 (date of constitution)	–
Issue of new units:	
- Placement at listing	2,500,995
- Manager's fee paid in units	13,281
At 31 August 2014	2,514,276

During the financial year, the Trust issued 13,281,488 new units at the issue price range of $0.9525 to $1.0205 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;
- 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; and

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.

14. CAPITAL AND OTHER COMMITMENTS

(a) Commitments for capital expenditure

	2014 S$'000
Authorised and contracted for	
- Investment properties	14,694

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

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

	2014 S$'000
Within 1 year	183,657
Between 1 – 5 years	283,776
After 5 years	2,833
	470,266

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

15. GROSS REVENUE

	2014 S$'000
Gross rental income	212,826
Car park income	7,941
Other income	2,154
	222,921

16. PROPERTY OPERATING EXPENSES

	2014 S$'000
Property tax	19,097
Property management fees	8,827
Maintenance	11,417
Utilities	8,954
Marketing	5,860
Staff cost	2,555
Others	301
	57,011

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

17. MANAGER'S MANAGEMENT FEES

	2014 S$'000
Base fee	8,829
Performance fee	8,296
	17,125

18. OTHER TRUST EXPENSES

	2014 S$'000
Audit fees	179
Valuation expense	63
Consultancy and other professional fees	307
Other expenses	681
	1,230

19. FINANCE COSTS

	2014 S$'000
Interest on borrowing	19,754
Amortisation of upfront fee for loan facility	2,125
Other financial expenses	19
	21,898

20. INCOME TAX

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

	2014 S$'000
Total return for the period	227,961
Tax calculated at tax rate of 17%	38,753
Expenses not deductible for tax purposes	4,248
Income not subject to tax due to tax transparency	(25,558)
Fair value change on investment properties	(17,443)
	–

21. EARNINGS PER UNIT

Basic and diluted Earnings per Unit are based on:

	2014
Total return for the period after tax (S$'000)	227,961
Weighted average number of Units ('000)	2,507,825
Basic and diluted Earnings per Unit (cents)	9.09

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

22. ISSUE EXPENSES

Issue expenses comprises professional, advisory and underwriting fees and other costs related to the issuance of Units.

23. FINANCIAL RISK MANAGEMENT

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

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

The policies for managing these risks are summarised below.

(a) Interest rate risk

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

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

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

23. FINANCIAL RISK MANAGEMENT (CONT'D)

(a) Interest rate risk (Cont'd)

Movements in interest rates will therefore have an impact on the Trust. If the interest rate change by 0.25% 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:

	2014	
Increase/(Decrease)	Statement of Total Return S$'000	Hedging Reserve S$'000
Borrowing		
– increased by	(963)	–
– decreased by	963	–
Interest rate swap		
– increased by	–	4,323
– decreased by	–	(4,341)

(b) Credit risk

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

As at the balance sheet date, the Trust has no significant concentration of credit risks other than amount owing by related parties.

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 balance sheet which comprise mainly trade receivables, and cash balances placed with banks.

As at 31 August 2014, all trade receivables were backed by bankers'/insurance guarantees and/or deposits from customers.

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

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

23. FINANCIAL RISK MANAGEMENT (CONT'D)

(b) Credit risk (Cont'd)

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

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

	2014 S$'000
Past due 1 to 30 days	1,578
Past due 31 to 60 days	10
Past due 61 to 90 days	118
Past due over 90 days	229
	1,935

Based on historical default rates, the Manager believes that no impairment losses is necessary in respect of trade receivables as these receivables mainly arose from tenants that have a good track record with the Trust and there are sufficient security deposits and/or bankers'/insurance guarantees as collateral. The basis of determining impairment is set out in the accounting policy Note 2(h).

(c) Liquidity risk

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

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

2014	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
Net-settled interest rate swap	(6,060)	(4,211)	(28)	1,487
Trade and other payables	(35,131)	(12,154)	(16,301)	(498)
Borrowing	(11,739)	(261,507)	(322,708)	(303,724)
	(52,930)	(277,872)	(339,037)	(302,735)

23. FINANCIAL RISK MANAGEMENT (CONT'D)

(d) Offsetting financial assets and liabilities

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

2014	Gross amount of recognised financial liabilities S$'000	Gross amount of recognised financial liabilities offset in the balance sheet S$'000	Net amount of financial liabilities presented in the balance sheet S$'000	Related amount not offset in the balance sheet S$'000	Net amount S$'000
Financial liabilities					
Interest rate swaps	8,758	–	8,758	–	(8,758)

(e) Capital management

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

The Trust is subject to the aggregate leverage limit as defined in the Property Fund Appendix of the CIS Code. The CIS Code stipulates that the total borrowings and deferred payments (together the "Aggregate Leverage") of a property fund should not exceed 35% of the fund's deposited property. The Aggregate Leverage of a property fund may exceed 35% of the fund's deposited property (up to a maximum of 60%) only if a credit rating of the property fund from Fitch Inc., Moody's or Standard and Poor's is obtained and disclosed to the public.

As at balance sheet date, the Trust has a gearing of 26.0%, and is in compliance with the Aggregate Leverage limit of 35%.

(f) Fair value measurements

Fair value hierarchy

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

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

23. FINANCIAL RISK MANAGEMENT (CONT'D)

(f) Fair value measurements (Cont'd)

Fair value hierarchy (Cont'd)

2014	Level 1 S$'000	Level 2 S$'000	Level 3 S$'000	Total S$'000
Assets				
Investment properties	–	–	3,159,000	3,159,000
Liabilities				
Derivative financial instruments	–	(8,758)	–	(8,758)

Level 2
The fair value of interest rate swap contracts (which are not traded in an active market) is determined from information provided by financial institutions using valuation techniques with observable inputs that are based on market information existing at each balance sheet 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.

Description	Valuation technique(s)	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurement
Investment properties	Discounted cash flow	Discount rate (7.00% to 7.50%)	Significant reduction in the capitalisation rate and/or discount rate in isolation would result in a significantly higher fair value of the investment properties.
	Income capitalisation	Capitalisation rate (4.25% to 5.00%)	

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.
- 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 period 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.

23. FINANCIAL RISK MANAGEMENT (CONT'D)

(g) Financial instruments by category

2014	Loans and receivables S$'000	Derivatives used for hedging S$'000	Other financial liabilities at amortised cost S$'000	Total S$'000
Assets				
Trade and other receivables excluding non-financial instruments	5,801	–	–	5,801
Cash and cash equivalents	90,658	–	–	90,658
	96,459	–	–	96,459
Liabilities				
Trade and other payables excluding non-financial instruments	–	–	(63,319)	(63,319)
Borrowing	–	–	(843,125)	(843,125)
Derivative financial instruments	–	(8,758)	–	(8,758)
	–	(8,758)	(906,444)	(915,202)

24. RELATED PARTIES TRANSACTIONS

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

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

	2014 S$'000
Manager's management fees paid to a related company	17,125
Property management fees paid/payable to a related company	8,827
Income support received/receivable from related company	5,092
Trustee's fees paid/payable to the Trustee	518
Staff reimbursements paid/payable to a related company	2,246
Reimbursement of issue expenses paid by related company	4,696
Rental and other income received/receivable from related companies	1,086
Other expenses paid/payable to related companies	784

25. OPERATING SEGMENTS

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

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

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly management fees, trust expenses, finance income and finance expenses. Segment information by geographical area is not presented as all of the Trust's assets are located in Singapore.

2014 Result	Paragon S$'000	The Clementi Mall S$'000	Total S$'000
Gross revenue	180,628	42,293	222,921
Property operating expenses	(43,911)	(13,100)	(57,011)
Segment net property income	136,717	29,193	165,910
Income support	–	5,092	5,092
Amortisation of intangible asset	–	(5,092)	(5,092)
	136,717	29,193	165,910
Unallocated amounts:			
Manager's management fees			(17,125)
Trustee's fee			(518)
Other trust expenses			(1,230)
Finance income			219
Finance costs			(21,898)
Net Income			125,358
Fair value change on investment properties	84,966	17,637	102,603
Total return for the period before taxes and distribution			227,961
Less: income tax			–
Total return for the period after taxes and before distribution			227,961
Segment assets	2,589,032	583,431	3,172,463
Segment assets includes:			
– Plant and equipment	1,032	23	1,055
– Investment properties	2,588,000	571,000	3,159,000
– Intangible asset	–	12,408	12,408
Unallocated assets			96,570
Total assets			3,269,033

25. OPERATING SEGMENTS (CONT'D)

2014 Result	Paragon S$'000	The Clementi Mall S$'000	Total S$'000
Segment liabilities	36,705	8,794	45,499
Unallocated liabilities:			
– Borrowing			843,125
– Derivative financial instruments			8,758
Others			18,585
Total liabilities			915,967
Other information			
Additions to:			
– Plant and equipment	1,150	32	1,182
– Investment properties	3,034	363	3,397
Depreciation of plant and equipment	(118)	(9)	(127)
Amortisation of intangible asset	–	(5,092)	(5,092)

26. FINANCIAL RATIOS

	2014 %
Ratio of expenses to weighted average net assets value[(1)]	
– including performance component of Manager's management fees	0.74
– excluding performance component of Manager's management fees	0.42
Portfolio turnover rate[(2)]	–

Notes:

(1) The annualised ratio is computed in accordance with guidelines of Investment Management Association of Singapore dated 25 May 2005. The expenses used in the computation relate to expenses of the Trust, excluding property expenses and finance expense.

(2) The annualised ratio is computed based on the lesser of purchases or sales of underlying investment properties of the Trust expressed as a percentage of weighted average net asset value. The portfolio turnover rate was nil for the period ended 31 August 2014, as there were no sales of investment properties.

27. SUBSEQUENT EVENT

Subsequent to the reporting date, the Manager announced a distribution of 1.39 cents per unit, for the period from 1 June 2014 to 31 August 2014.

28. COMPARATIVE INFORMATION

No comparative information has been presented as the Trust was only constituted on 9 July 2013.

29. AUTHORISATION OF FINANCIAL STATEMENT

The financial statements were authorised for issue by the Manager and the Trustee on 13 October 2014.