SABANA
SHARI'AH COMPLIANT REIT

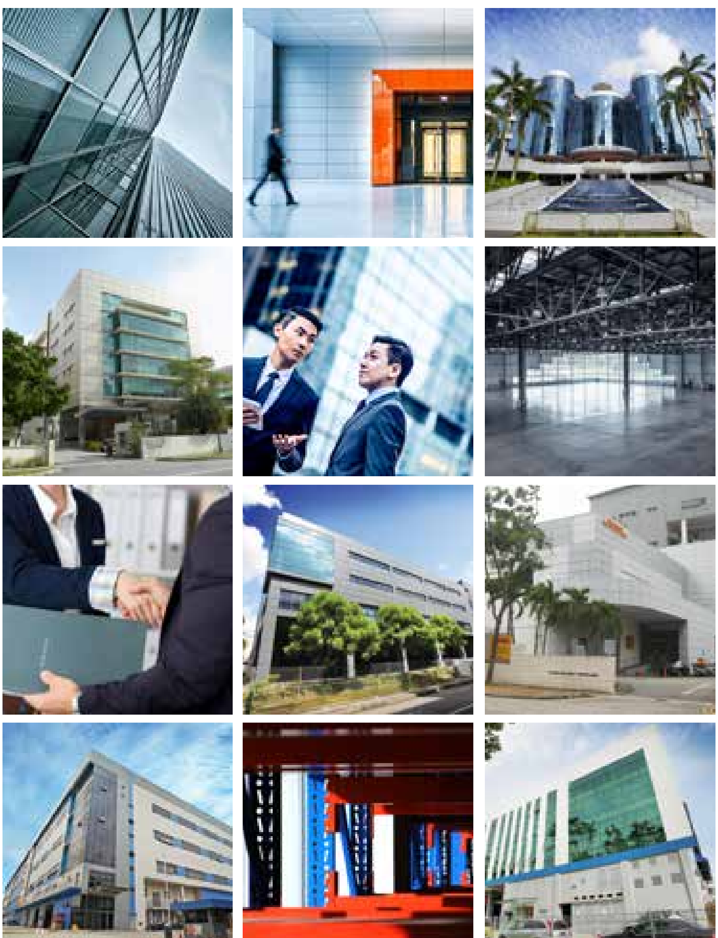

# Annual Report 2016

# CONTENTS

# World's LARGEST

## *Listed Shari'ah Compliant Industrial REIT by Total Assets*

As at 31 December 2016



# Letter to Unitholders

*Left:*
**Mr Kevin Xayaraj**
Co-founder, CEO and Executive Director

*Right:*
**Mr Steven Lim Kok Hoong**
Chairman and Independent Non-executive Director

Dear Unitholders

We are pleased to present to you the Annual Report for Sabana Shari'ah Compliant Industrial Real Estate Investment Trust ("Sabana REIT" or the "Trust") for the financial year ended 31 December 2016 ("FY 2016").

It was another challenging year, marked by severe economic and cyclical headwinds. The lacklustre global economy and slowdown in global trade weighed on Singapore's trade-dependent economy. Consequently, the Singapore economy grew 1.8 per cent in 2016, the slowest annual growth rate since 2009. The slowdown affected business sentiments and dampened demand for industrial space.

## REMAINING FOCUSED AMIDST ADVERSITIES

As a REIT with a focus on industrial real estate, Sabana REIT was adversely affected by the economic uncertainties and the resulting slowdown in the industrial and warehouse market.

However, amidst a challenging business environment in FY 2016, Sabana REIT generated a gross revenue of S$91.8 million, a decline of 8.9% compared to S$100.8 million in FY 2015. The fall in revenue was partly attributed to negative rental reversions for certain master leases renewals, lower portfolio occupancy arising from conversion of three master leases[1] which expired in FY 2015 to multi-tenanted leases, and lower contribution from divestment of properties.

Net property income ("NPI") decreased 20.5% to S$56.9 million, partly due to higher property expenses resulting from the conversion of the three master leases into multi-tenanted lease arrangements as well as higher property tax and land rent expenses associated with the conversion of certain master leases into non-triple net master lease arrangements in FY 2015.

The Trust was able to generate distributable income of S$36.9 million for FY 2016, 26.3% lower than FY 2015, in tandem with the lower NPI. Total distribution per unit ("DPU") for the financial year was 4.64[2,3] cents. Outstanding borrowings stood at S$441.1 million as at 31 December 2016 compared to S$485.8 million in the previous corresponding period.

## INVESTING FOR GROWTH

We adopt a long-term perspective to growing our business and creating value that is sustainable in the long run. Even as we implement measures to contain costs and improve operations efficiency to address short-term challenges, we continue to explore and evaluate acquisition opportunities that can increase the quality of our portfolio and deliver long-term value. We also review our portfolio regularly and where appropriate divest non-core and underperforming assets to recycle capital for investments in quality assets while bearing in mind the interests of the Unitholders.

1 23 Serangoon North Avenue 5, 15 Jalan Kilang Barat and 34 Penjuru Lane.
2 Includes the 310,712,244 new units issued on 25 January 2017 ("Rights Units") at an issue price of S$0.258 per unit pursuant to the 42-for-100 rights issue to raise gross proceeds of approximately S$80.2 million ("Rights Issue").
3 Excluding the effects of the Rights Issue, DPU would have been 5.01 cents.

# Letter to Unitholders

In this respect, the Trust has proposed acquiring three industrial assets[4] in the financial year under review. These acquisitions were in line with the Trust's strategy to acquire income-producing industrial real estate assets which provide cash flows and stable returns to Unitholders.

## DIVESTING NON-CORE ASSETS

In last year's annual report, we informed you about the completion of the divestment of 3 Kallang Way 2A and 200 Pandan Loop in 1Q 2016.

Net proceeds of approximately S$53.0 million were used mainly to repay outstanding short-term borrowings. We would also like to inform that we have entered into a conditional sale and purchase agreement on 5 December 2016 for the divestment of a single-storey cold room warehouse with mezzanine floor and a two-storey office building at 218 Pandan Loop for a sale consideration of S$14.8 million. The property which was acquired on 26 November 2010 for S$13.5 million as part of the IPO portfolio has a gross floor area ("GFA") of approximately 50,374 square feet representing about 1.1% of the Trust's total portfolio GFA. When the divestment is completed, the proceeds may be used to repay outstanding borrowings, to pursue acquisition opportunities or for working capital purposes. The divestment is in line with the Trust's strategy to divest non-core and under-performing assets to recycle Sabana REIT's capital into higher yielding assets and optimise returns for Unitholders.

## PROACTIVE PORTFOLIO MANAGEMENT

Notwithstanding the challenging market conditions, we continued to maintain rigorous marketing and leasing efforts with the objective of increasing the Trust's portfolio occupancy. We also continued to proactively engage our master tenants and sub-tenants to more effectively manage lease expiries and strive to fill every available space.

On 17 November 2016, we have successfully renewed for one year the master leases in respect of three Sponsor-related properties, 51 Penjuru Road, 33 & 35 Penjuru Lane and 18 Gul Drive at the same rental rates.

## THE STATE OF OUR PORTFOLIO

As at 31 December 2016, Sabana REIT has a diversified portfolio of 21 properties, comprising 10 master-tenanted properties and 10 multi-tenanted properties. For the remaining property (218 Pandan Loop), the divestment is expected to be completed by 2Q FY 2017[5]. The Trust's overall portfolio occupancy was 87.2%.

## STRENGTHENING OUR FINANCIAL STRUCTURE

On 25 August 2016, the Manager of Sabana REIT successfully secured new Commodity Murabaha Facilities of up to S$108.0 million, comprising a 3.5-year term Commodity Murabaha facility of up to S$90.0 million and a 3.5-year revolving Commodity Murabaha facility of up to S$18.0 million. The facilities were used to re-finance expiring facilities under the existing Master Murabaha Agreement as well as for working capital.

On 20 December 2016, the Manager undertook an underwritten and renounceable rights issue of 310,712,244 new units in Sabana REIT. The Rights Units were offered on the basis of 42 Rights Units for every 100 existing units in Sabana REIT held as at 29 December 2016. At the successful completion of the exercise, the Rights Issue raised gross proceeds amounting to approximately S$80.2 million. The proceeds from the Rights Issue, net of issue-related expenses, had been fully utilised as at date of this report, partly to repay short-term borrowings and partly placed as short-term bank deposits, pending their deployment for the proposed acquisitions.

## UNCERTAIN OUTLOOK FOR 2017

The outlook for FY 2017 is uncertain. The global economy will continue to be challenged by uncertainties and volatility. The trend toward protectionism will weigh on global trade flows, affecting Singapore's economy.

[4] 72 Eunos Avenue 7, 107 Eunos Avenue 3 and 47 Changi South Avenue 2.
[5] Pending JTC approval.

# Letter to Unitholders

Businesses in Singapore will continue to face sluggish demand, high business costs and stiff competition. Singapore dollar interest rates are expected to face upward pressure in 2017 in tandem with the anticipated rise in US interest rates, raising the cost of funds for businesses. In the National Business Survey by the Singapore Business Federation, nearly half of the companies surveyed expect the economic climate to worsen in 2017 citing costs and manpower concerns.

The outlook for industrial real estate in 2017 remains subdued. The operating environment is expected to be competitive, caused by a surge in supply completions compounded by a weak demand for industrial space on the back of uncertain business conditions.

A Strategic Review Committee has been set up to review the current shareholding structure and management of the Manager, as well as Sabana REIT's strategic direction and business. The Sponsor and the Manager are considering all options to further the sustainable growth of Sabana REIT and the interest of its unitholders.

## FOCUS ON LONG-TERM SUSTAINABLE GROWTH

We recognise that Sabana REIT is facing the most severe challenge to its business since its listing. Some challenges are cyclical and will eventually pass. Certain concerns such as costs and manpower should and have been addressed by the government and the benefits of the relevant policies will take time to filter down to the Trust. Certain international events beyond our control will cause disruptions which we will monitor vigilantly and respond with appropriate measures to address the impact.

The challenges that the Trust is facing currently are multi-faceted and in many aspects, inter-related. As such, we cannot address them effectively with piecemeal solutions. We will adopt a holistic approach in managing these challenges, including reinforcing our fundamentals, improving operational efficiency, strengthening our capital structure and enhancing marketing and tenants engagement efforts. Our overarching objective is to create and deliver value to Unitholders over the long term.

We will remain disciplined and focused in executing our growth strategies, avoiding the distractions of cyclical challenges and volatility in the equity market. Given that a portfolio of quality assets is the keystone of our business, we will continue to invest in strengthening our portfolio with prudent financial and cost management. We have in place an experienced, dedicated and committed team of professionals to maximise occupancy and enhance the value of our portfolio. As such, we are confident that we can ride the current slowdown in the industry and continue on the path to sustainable growth.

## ACKNOWLEDGEMENTS

On behalf of the Board of Directors, we would like to thank our Unitholders for their patience and understanding during this difficult year.

On 27 February 2017, the Manager announced the resignation of our Non-Executive Director Ms Ng Shin Ein. We would like to take this opportunity to thank Ms Ng for her invaluable contributions during her tenure. The Board is also in the midst of searching for a suitable candidate as an Independent Director to join the Board in compliance with the enhanced regulatory requirements implemented by the Monetary Authority of Singapore.

We continue to hold our Unitholders in high regard and value their feedback. We are also committed to constructively engaging Unitholders in a compliant and transparent manner.

We appreciate the assistance and cooperation of our Trustee, partners, lenders and tenants as we negotiate the varied challenges that confronted us.

Last but not least, we would like to thank our fellow Directors, the Management and staff for their hard work and dedication.

**Mr Steven Lim Kok Hoong**
Chairman and Independent Non-executive Director

**Mr Kevin Xayaraj**
Co-founder, CEO and Executive Director

# Corporate Profile

## ABOUT SABANA REIT

Sabana REIT's property portfolio, valued at approximately S$1.0 billion as at 31 December 2016, comprises 21 properties strategically located across Singapore. Sabana REIT has four main industrial property segments: High-tech Industrial, Chemical Warehouse and Logistics, Warehouse and Logistics and General Industrial. As at 31 December 2016, Sabana REIT continued to be the largest listed Shari'ah compliant industrial REIT in the world in terms of total asset size.

The Trust is managed by an external manager, Sabana Real Estate Investment Management Pte. Ltd. (the "Manager").

### THE MANAGER

The Manager was incorporated in Singapore on 15 March 2010 and is wholly-owned by Sabana Investment Partners Pte. Ltd. ("SIP"), of which the shareholders are Vibrant Group Limited (the "Sponsor"), Blackwood Investment Pte. Ltd. ("Blackwood") and Atrium Asia Capital Partners Pte. Ltd. ("AACP").

*WE WORK FOR UNITHOLDERS*

*Our objective is to provide Unitholders with regular and stable distributions. We also aim to achieve long-term growth in DPU and net asset value ("NAV") per unit in Sabana REIT ("Unit"), while maintaining an appropriate capital structure for Sabana REIT.*

# SABANA REIT AT A GLANCE

## CORE VALUES

We are guided by our core values. They define our culture and shape our personality and decision-making process.

### PEOPLE

We recognise that our people are our greatest assets. By creating and maintaining a conducive working environment, our people will grow professionally and make a positive impact to both the organisation and society.

### UNITHOLDERS' INTERESTS FIRST

We strive to build a portfolio of quality assets for our Unitholders.

### FOCUS ON VALUE CREATION

We promise to create value for Unitholders by creating success factors and direction for the future.

### INTEGRITY

We are committed to the values of responsibility, transparency and professionalism.

### FAIRNESS AND EQUALITY

We ensure that our business activities are consistent with the principles of fairness, partnerships and equality.

# VISION

To be a prominent Shari'ah compliant industrial real estate investment trust ("REIT") with an outstanding portfolio of assets in Singapore and beyond.

# MISSION

To seek yield-accretive initiatives to strengthen and grow Sabana REIT's portfolio and to satisfy our Unitholders by delivering attractive DPU.

SABANA REIT

# *OUR STRATEGY*

## GROWTH THROUGH ACQUISITIONS

We aim to expand Sabana REIT's portfolio by acquiring quality properties across the High-tech Industrial, Chemical Warehouse and Logistics, Warehouse and Logistics and General Industrial property segments, both in Singapore and overseas. Our goal is to achieve greater diversity in terms of portfolio allocation across property segments, as well as in geographical locations. The availability of amenities and major transport routes, as well as the quality of building specifications remain key considerations in our acquisition process.

## PROACTIVE ASSET MANAGEMENT

We proactively source for new tenants while managing lease renewals to minimise downtime and maximise rental yields. We strive to maintain a balanced mix of tenant trade sectors and well-distributed lease expiry profile to achieve greater portfolio resilience and stability.

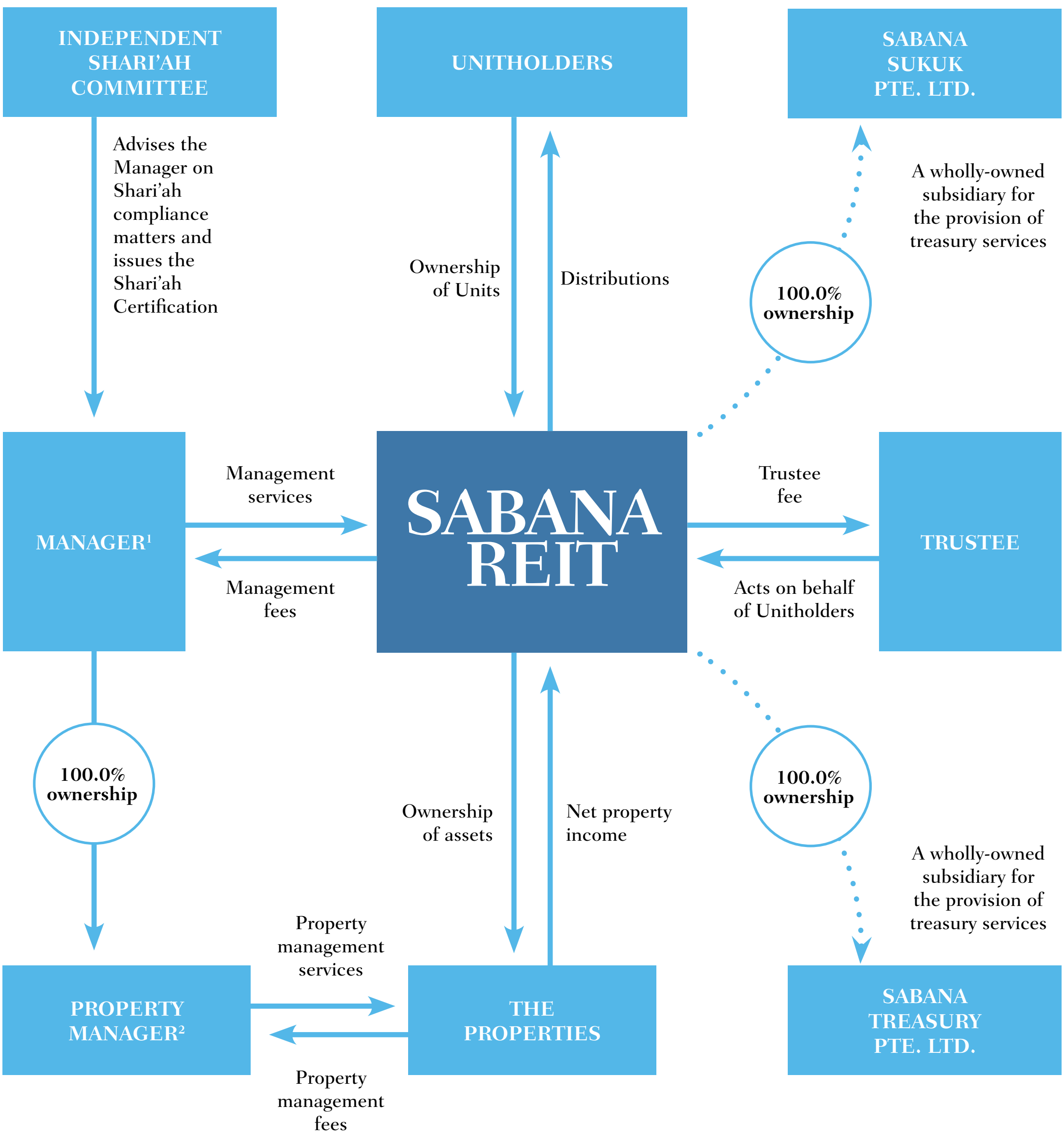
## OPPORTUNISTIC DEVELOPMENT

Within the limits of Appendix 6 of the Code on Collective Investment Schemes ("Property Funds Appendix") issued by the Monetary Authority of Singapore ("MAS"), we will prudently undertake development activities when appropriate opportunities arise, while mitigating construction and leasing risks and any short-term yield dilution resulting from additional capital raised for the purpose of the development activities.

## CAPITAL AND RISK MANAGEMENT

We employ an appropriate mix of debt and equity in financing acquisitions. We will also continue to be proactive in expanding our base of relationship with banks, in order to access a greater pool of financing options to optimise risk-adjusted returns to Unitholders.

# Our Trust Structure




[1] The Manager is 100.0% owned by SIP. SIP is 51.0% owned by the Sponsor, 45.0% owned by Blackwood and 4.0% owned by AACP as at 31 December 2016.
[2] The Property Manager, Sabana Property Management Pte. Ltd. ("SPM") is 100.0% owned by SIP, indirectly through the Manager.

# SHARI'AH COMPLIANCE

## COMMONLY ASKED QUESTIONS

**Q: What does being "Shari'ah compliant" mean?**

A: Being Shari'ah compliant means complying with Shari'ah investment principles and procedures which are consistent with principles of Islamic law. It also requires general considerations of ethical investing in terms of social responsibility in asset selection and structuring.

**Q: What are the differences in the day-to-day operations of Sabana REIT compared to conventional REITs?**

A: We have to ensure that the total rental income from lessees, tenants and/or sub-tenants engaging in activities prohibited under the Shari'ah guidelines should not exceed 5.0% per annum of the Trust's gross revenue. On an annual basis, our Shari'ah Advisor, Five Pillars Pte. Ltd. ("Five Pillars") conducts audit checks to ensure that the business activities conducted by the tenants are permissible by Shari'ah guidelines. Business activities relating to conventional financial and insurance services, gaming, non-halal production, tobacco-related products, non-permitted entertainment activities and stock-broking in non-compliant securities are considered to be non-permissible. The assessments by the Shari'ah Advisor would then be reported to the Independent Shari'ah Committee which will decide if Sabana REIT is eligible for re-certification as being Shari'ah compliant.

In terms of financing, investment and deposit facilities and insurance and risk management solutions, we will also seek Shari'ah compliant options where commercially available.

**Q: Does being Shari'ah compliant limit growth opportunities for Sabana REIT?**

A: The majority of the properties within the industrial property sector are Shari'ah compliant by nature i.e. they do not


SABANA SHARI'AH COMPLIANT INDUSTRIAL REAL ESTATE INVESTMENT TRUST
SHARI'AH COMPLIANCE CERTIFICATE

*Certificate of Shari'ah Compliance*

house business activities which are non-permissible and thus being Shari'ah compliant does not limit Sabana REIT's growth prospects. In addition, being Shari'ah compliant allows Sabana REIT to access the Islamic equity markets which has enabled Sabana REIT to access more diverse sources of equity funding and a larger investor base.

### Q: How is Sabana REIT different from other listed Shari'ah compliant REITs?

A: Sabana REIT is the only Singapore listed REIT which has obtained a certification issued by an Independent Shari'ah Committee consisting of respected Islamic scholars from Malaysia and Saudi Arabia. The certificate represents an endorsement of Sabana REIT's compliance with Shari'ah guidelines according to standards generally accepted in GCC states[1], such that the total income should not exceed 5.0% of the Trust's gross revenue. The standards used in the GCC states are typically stricter compared to the other parts of the world, thus making it accessible to even more Shari'ah investors.

Any non-Shari'ah income generated by Sabana REIT is given away to charitable causes on a quarterly basis. For FY 2016, Sabana REIT's non-Shari'ah income that was donated represents only approximately 0.1% of Sabana REIT's gross revenue.

### Q: Does Sabana REIT have to comply with prevailing legislation, regulations, accounting standards, guidelines and directives affecting REITs in Singapore or is it only subject to Shari'ah Guidelines?

A: Sabana REIT has to and will comply with prevailing legislation, regulation, accounting standards, guidelines and directives affecting REITs in Singapore. Sabana REIT's adherence to Shari'ah investment principles and procedures are in addition to the laws, rules and regulations of any other relevant regulatory or supervisory body or agency applicable to Sabana REIT. Where Shari'ah principles conflict with the laws, rules and regulations applicable to Sabana REIT, such laws, rules and regulations shall prevail.

[1] Refers to Cooperation Council for the Arab States of the Gulf.

# 2016 SIGNIFICANT EVENTS

## MARCH

- On 14 March, announced completion of divestment for 200 Pandan Loop, for a sale price of S$38.0 million.
- On 30 March, announced completion of divestment for 3 Kallang Way 2A for a sale price of S$16.6 million.

## APRIL

- Held 5th Annual General Meeting ("AGM") on 12 April 2016.

## AUGUST

- On 25 August, secured a new S$108.0 million term and revolving Commodity Murabaha Facilities due in 2020, further diversifying borrowings maturity profile.

## NOVEMBER

- On 17 November, renewed three master leases[1] with the Sponsor.

## DECEMBER

- On 5 December, announced proposed divestment of 218 Pandan Loop for a sale price of S$14.8 million[2].
- On 8 December, announced proposed acquisition of 72 Eunos Avenue 7 for a purchase consideration of S$20.0 million[3].
- On 14 December, announced proposed acquisition of 107 Eunos Avenue 3 for a purchase consideration of S$34.5 million[4].
- On 15 December, announced proposed acquisition of 47 Changi South Avenue 2 for a purchase consideration of S$23.0 million[5].
- On 20 December, announced an underwritten and renounceable rights issue to raise gross proceeds of approximately S$80.2 million[6].

**Footnotes**

1. 51 Penjuru Road, 33 & 35 Penjuru Lane and 18 Gul Drive.
2. SGX announcement of the proposed divestment of 218 Pandan Loop was made on 5 December 2016.
3. SGX announcement of the proposed acquisition of 72 Eunos Avenue 7 was made on 8 December 2016.
4. SGX announcement of the proposed acquisition of 107 Eunos Avenue 3 was made on 14 December 2016.
5. SGX announcement of the proposed acquisition of 47 Changi South Avenue 2 was made on 15 December 2016.
6. SGX announcement of the underwritten and renounceable Rights Issue of 310,712,244 new Units was made on 20 December 2016.

# Financial Highlights

## KEY FINANCIAL FIGURES

| S$'000 | FY 2016 | FY 2015 | FY 2014 | FY 2013 | FY 2012 | FY 2011[1] |
|---|---|---|---|---|---|---|
| Gross revenue | 91,807 | 100,824 | 100,342 | 89,485 | 81,768 | 76,945 |
| Net property income | 56,942 | 71,605 | 72,946 | 80,360 | 76,937 | 73,074 |
| Distributable income | 36,949 | 50,135 | 51,624 | 61,755 | 59,395 | 60,603 |
| DPU (cents) | 4.64[2] | 6.85 | 7.33 | 9.38 | 9.28 | 8.67 |

## SELECTED BALANCE SHEET DATA

| S$'000 | As at 31 December 2016 | As at 31 December 2015 | As at 31 December 2014 | As at 31 December 2013 | As at 31 December 2012 | As at 31 December 2011 |
|---|---|---|---|---|---|---|
| Total assets | 1,022,889 | 1,165,399 | 1,281,660 | 1,236,753 | 1,156,538 | 1,082,316 |
| Borrowings, at amortised costs | 437,924 | 481,084 | 478,848 | 447,392 | 420,800 | 359,865 |
| Net assets attributable to Unitholders | 556,795 | 653,741 | 772,585 | 756,504 | 702,857 | 681,782 |
| Units in issue and to be issued entitled to distribution ('000) | 1,053,084[3] | 734,027 | 725,983 | 691,959 | 641,523 | 637,295 |
| NAV per Unit (S$) | 0.75[4] | 0.89 | 1.06 | 1.09 | 1.10 | 1.07 |
| Adjusted NAV per Unit (S$) | 0.74[4] | 0.88 | 1.04 | 1.07 | 1.07 | 1.05 |
| Market capitalisation | 399,191[3] | 523,652 | 681,147 | 746,037 | 730,159 | 556,627 |

1 For the period from 26 November 2010 to 31 December 2011.
2 Includes the effects of the Rights Issue that was concluded in January 2017.
3 Includes the Rights Units that are to be issued on 25 January 2017.
4 Excludes the Rights Units that are to be issued on 25 January 2017.

# Financial Highlights

## BORROWINGS PROFILE

| | As at 31 December 2016 | As at 31 December 2015 | As at 31 December 2014 | As at 31 December 2013 | As at 31 December 2012 | As at 31 December 2011 |
|---|---|---|---|---|---|---|
| Aggregate leverage[5] | 43.2% | 41.7% | 38.0% | 36.9% | 37.6% | 34.1% |
| Total borrowings (S$ million) | 441.1 | 485.8 | 486.0 | 455.8 | 432.8 | 364.8 |
| Fixed as % of total borrowings | 90.2% | 81.9% | 88.0% | 93.3% | 100.0% | 96.7% |
| Weighted average all-in financing cost[6] | 4.2% | 4.2% | 4.1% | 4.1% | 4.3% | 4.4% |
| Weighted average tenor of borrowings | 1.9 years | 2.1 years | 3.0 years | 2.3 years | 3.2 years | 2.2 years |
| Profit coverage ratio[7] | 3.1x | 3.8x | 4.3x | 5.0x | 5.4x | 7.4x |
| Unencumbered investment properties (S$ million) | 331.5 | 375.8 | 328.9 | 177.7 | 108.8 | 46.8 |

5 Ratio of total borrowings and deferred payments over deposited property as defined in the Property Funds Appendix.
6 Inclusive of amortisation of transaction costs.
7 Ratio of net property income over profit expense (excluding amortisation and other fees).

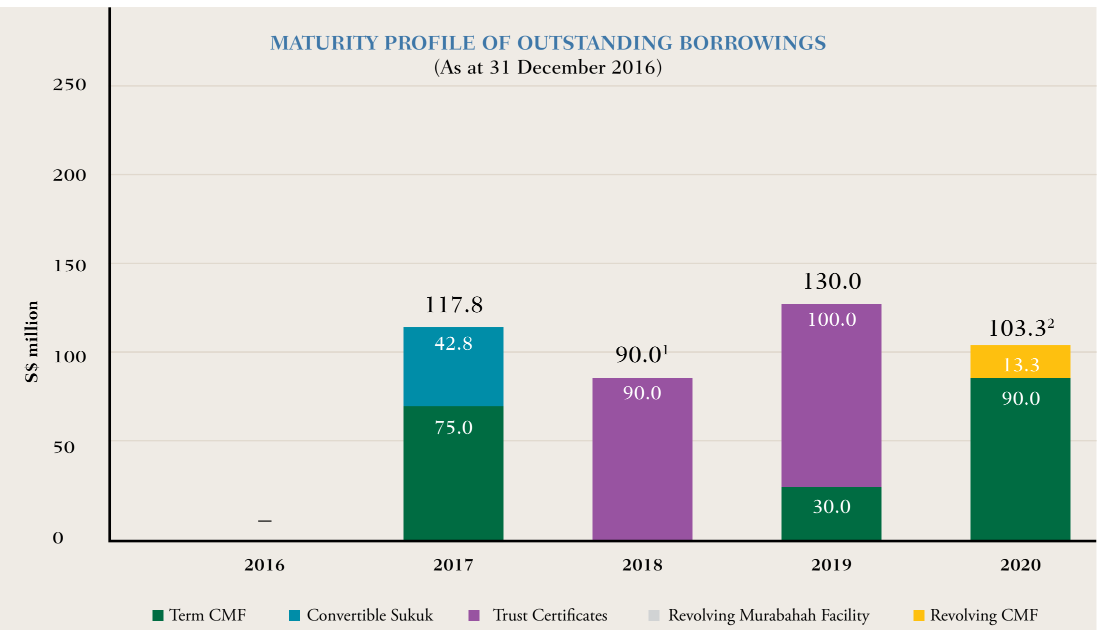
# Financial Review

## REVIEW OF RESULTS

FY 2016 was a very challenging year. The full impact of expiry of the 11 master leases in the last quarter of FY 2015 amid a sluggish global economy and Singapore industrial property market had adversely affected the overall performance of Sabana REIT for the year.

Gross revenue declined by 8.9% as compared to FY 2015, mainly attributed to the lower contribution from 200 Pandan Loop and 3 Kallang Way 2A which were divested in 1Q 2016, as well as the full year impact of the negative rental revisions for certain master lease renewals and lower portfolio property occupancy arising from the conversion of four master leases into multi-tenanted arrangements between FY 2015 to FY 2016.

The increase in the number of multi-tenanted properties and the conversion of certain master leases from triple-net to non-triple-net tenancies during this period had resulted in higher property tax, land rent and property maintenance expenses being incurred for the year. Including the impairment of the trade receivables from the master tenant at 1 Tuas Avenue 4, property expenses increased by 19.3% from the previous year.




**Maturities of total outstanding borrowings of S$441.1 million evenly staggered over the next 4 years.**

[1] Excludes S$50.0 million of undrawn Revolving Murabahah Facility.
[2] Excludes S$4.7 million of undrawn Revolving CMF.

# Financial Review

Consequently, NPI and distributable income for the full year fell by close to 20.5% and 26.3% respectively, to approximately S$56.9 million and S$36.9 million, respectively.

The Group's total assets decreased by over 12.2% to approximately S$1.0 billion as at 31 December 2016 from S$1.2 billion a year ago, mainly due to full year revaluation loss on investment properties of S$90.9 million and the divestment of 200 Pandan Loop and 3 Kallang Way 2A. Consequently, NAV per unit also declined to S$0.75 at the end of the financial year, as compared to S$0.89 at the beginning of the financial year.

## CAPITAL MANAGEMENT

During the financial year, Sabana REIT successfully refinanced S$138.0 million of term and revolving Commodity Murabaha Facilities ("CMF") due in November 2016, with a new S$90.0 million term CMF and S$18.0 million revolving CMF maturing in February 2020, with improved terms. The refinancing exercise also further improved the Trust's borrowings maturity profile.

On 20 December 2016, the Manager launched the Rights Issue to raise gross proceeds of approximately S$80.2 million, mainly to partially finance the proposed acquisitions of 72 Eunos Avenue 7, 107 Eunos Avenue 3 and 47 Changi South Ave 2. The Rights Issue was successfully concluded on 25 January 2017 with a subscription rate of approximately 209.1%. The Rights Issue strengthened Sabana REIT's balance sheet and increased its financial flexibility by lowering its gearing from 43.2% as at 31 December 2016 following year-end revaluation loss, to approximately 40.0% post Rights Issue.

In accordance with the stated uses in the offer information statement for the Rights Issue, the proceeds from the Rights Issue, net of issue-related expenses, had been fully utilised as at date of this report, partly to repay short-term borrowings and partly placed as short-term bank deposits, pending their deployment for the proposed acquisitions[1].

## SOURCES OF FUNDING AND PROFIT RATE MANAGEMENT

As at 31 December 2016, Sabana REIT's sources of funding were as follows:

- 39.4% secured S$195.0 million term CMF;
- 3.6% secured S$18.0 million revolving CMF;
- 10.1% secured S$50.0 million Revolving Murabahah Facility;
- 8.6% unsecured S$42.8 million Convertible Sukuk; and
- 38.3% unsecured S$190.0 million Trust Certificates.

As at 31 December 2016, the Trust had S$54.7 million of undrawn revolving credit facilities and S$331.5 million of unencumbered assets available on hand.

During the year, the Manager continued to maintain appropriate hedging of market based risks such as profit rate risks, via a combination of fixed rate funding and individual profit rate swaps for the term CMF, to minimize the impact of profit rate volatility and optimize risk-adjusted returns to Unitholders.

Close to 90.2% of the Trust's outstanding borrowings of approximately S$441.1 million were on fixed profit rates, compared to 81.9% a year ago, enabling the Trust to keep its weighted average all-in cost of borrowings below 4.2%, largely unchanged from the previous year, in a rising profit rate environment.

[1] Please refer to page 89 of the annual report on the utilisation of the Rights Issue proceeds.

# Investor Relations

## OUR GUIDING PRINCIPLE
As the Manager, we believe that by providing timely, clear and consistent information, key stakeholders of Sabana REIT can more accurately assess the value proposition of Sabana REIT and make informed investment decisions.

## OUR COMMITMENT
We are committed to publishing quarterly financial results within one month from the end of each quarter. Market-sensitive news regarding Sabana REIT are also broadcasted via the SGX-ST website and posted on **www.sabana-reit.com** on the same day of release.

We are constantly and proactively engaging with our key stakeholders in order to build solid, lasting and trusted relationships. As part of our efforts to keep communication channels open, we regularly hold constructive dialogues with key stakeholders, including unitholders, buy and sell-side analysts, fund managers, potential investors, the media, and the public. In so doing, we believe we will be able to provide the appropriate level of transparency of our operations.

## PROACTIVE ENGAGEMENT
Our investor relations (IR) team is easily contactable via phone and emails. Queries and concerns of stakeholders are addressed promptly. To encourage participation by our unitholders, we have continued to hold AGMs at locations which are easily accessible by public transportation. Sabana REIT's 2016 AGM was held in April 2016 at Suntec Singapore International Convention & Exhibition Centre. The event was well-received and we were pleased with the turnout of approximately 250 unitholders.

## EFFECTIVE COMMUNICATIONS
During the year, the senior management and our IR team continued to regularly communicate with analysts and the media via phone calls, emails or face-to-face meetings. We believe that reaching out to them will result in positive independent coverage of Sabana REIT, giving the investment community a greater understanding of our strategies as well as financial and operational performances. In addition, we held quarterly briefings for sell-side analysts the day after the release of Sabana REIT's quarterly or annual results to answer any queries they may have. We also engaged proactively with the investment community through meetings, teleconferences as well as investor conferences and roadshows. These engagements had allowed us to receive analysts' and investors' feedback on our performance and to respond in a timely manner to any possible concerns.

# Investor Relations

## Investor & Media Relations Activities in FY 2016

### 1st Quarter

- Analysts' Results for 4Q 2015 Financial Results

### 2nd Quarter

- Sabana REIT's 5th AGM
- Analysts' Results Briefing for 1Q 2016 Financial Results

### 3rd Quarter

- Analysts' Results Briefing for 2Q 2016 Financial Results
- IFN Investor Forum 2016 (Le Meridian, Kuala Lumpur)

### 4th Quarter

- Analysts' Results Briefing for 3Q 2016 Financial Results

***UNITHOLDERS' ENQUIRIES***

If you would like to find out more about Sabana REIT, please contact:
Sabana Real Estate Investment Management Pte. Ltd.

151 Lorong Chuan
#02-03 New Tech Park
Singapore 556741

**Phone:** (65) 6580 7750
**Fax**: (65) 6280 4700

**Email:** enquiry@sabana.com.sg
**Website:** www.sabana-reit.com

# Unit Performance

In FY 2016, the total return and unit price performance decreased by 33.5%[1] and 39.2% respectively. As at 31 December 2016, Sabana REIT closed at S$0.38[3], 39.2% lower than the opening of the year. This translated into a market capitalization of approximately S$399.2 million[4].

## TRADING DATA BY YEAR[5]

| Unit Price (S$) | 2016[3] | 2015 | 2014 | 2013 | 2012 | 2011 |
|---|---|---|---|---|---|---|
| Opening | 0.625 | 0.940 | 1.080 | 1.145 | 0.875 | 0.975 |
| Last done at year-end | 0.380 | 0.715 | 0.940 | 1.080 | 1.140 | 0.875 |
| Highest | 0.625 | 0.940 | 1.085 | 1.380 | 1.150 | 1.020 |
| Lowest | 0.380 | 0.705 | 0.905 | 1.035 | 0.875 | 0.835 |
| Unit price performance (%)[6] | (39.2) | (23.9) | (13.0) | (5.7) | 30.3 | (10.3) |
| Trading volume (million units) | 192.6 | 199.8 | 282.4 | 411.7 | 298.9 | 304.6 |

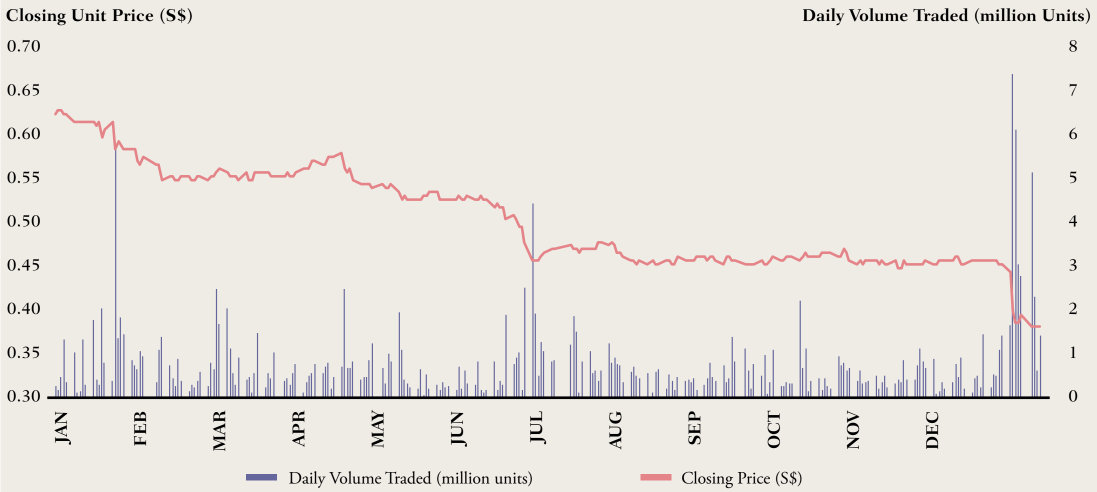
## RETURN ON INVESTMENT (FROM 1 JANUARY 2016 TO 31 DECEMBER 2016)[7]

| | % |
|---|---|
| Total Return[2] | (33.5) |
| Capital Appreciation[8] | (39.2) |
| Distribution Yield[9] | 10.8 |

1 Sum of distributions and capital appreciation for FY 2016 over the opening unit price of S$0.625 on 4 January 2016. Price is adjusted for 310,712,244 Rights Units to be issued on 25 January 2017.
2 Source: Bloomberg.
3 Adjusted for 310,712,244 Rights Units to be issued on 25 January 2017.
4 Based on 739,791,059 units issued as at 31 December 2016 and 310,712,244 Rights Units to be issued on 25 January 2017.
5 Source: ShareInvestor.
6 Difference between the closing Unit price on the last trading day of the year and the opening Unit price on the first trading day of the year.
7 Adjusted for rights issue announced on 20 December 2016; for Q1-Q3 declared DPU, applied an adjustment factor calculated as reported theoretical ex-rights price ("TERP") / unaffected closing Unit price prior to Rights Issue announcement, or S$0.432 / S$0.505; Q4 declared DPU not adjusted.
8 Difference between the closing Unit price on 30 December 2016 and the opening Unit price on 4 January 2016.
9 Based on total DPU declared for FY 2016. Yield based on end of period Unit price; 30 December 2016 Unit price of S$0.38.

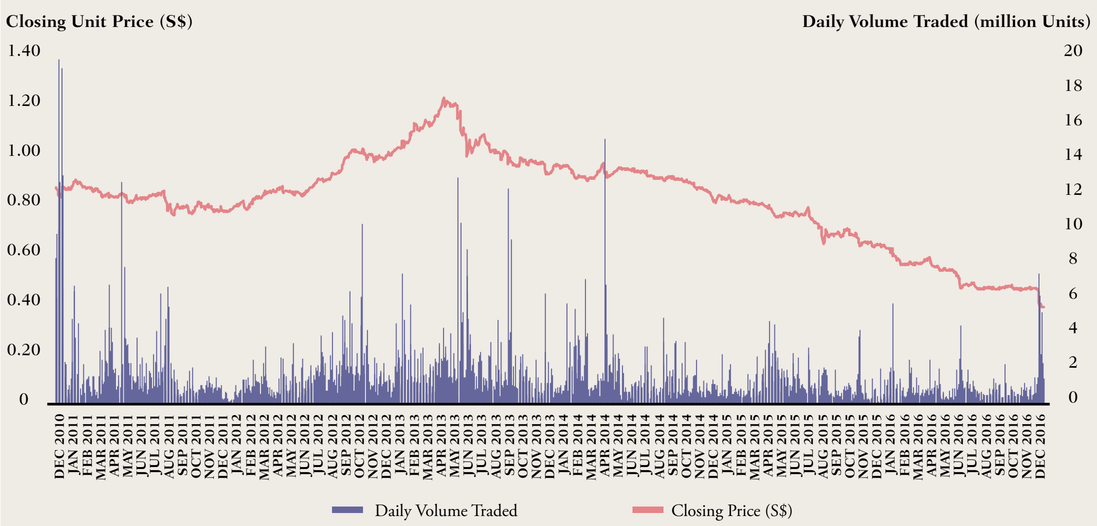
# Unit Performance

## TRADING PERFORMANCE IN FY 2016




Source: ShareInvestor

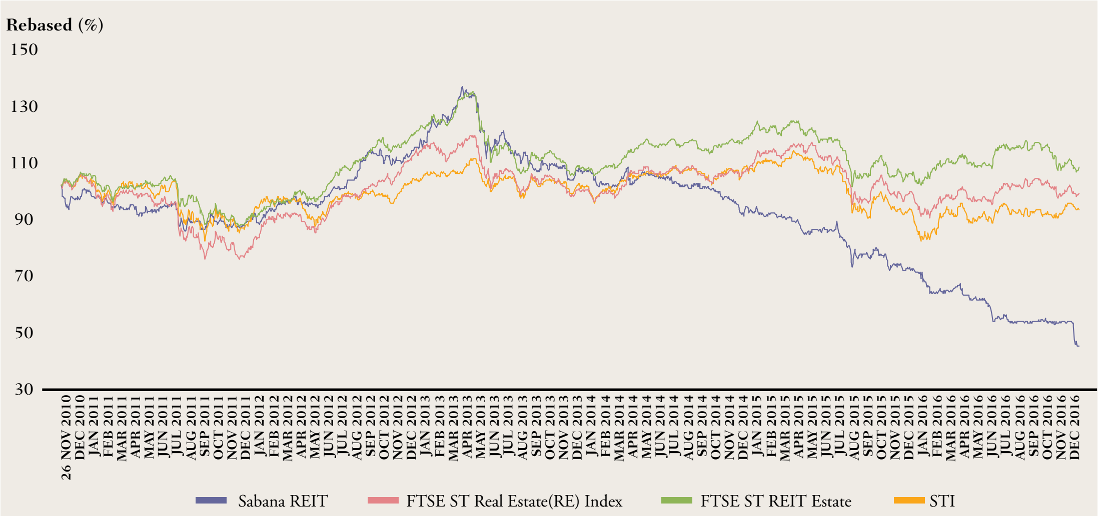
## TRADING PERFORMANCE SINCE IPO




Source: ShareInvestor

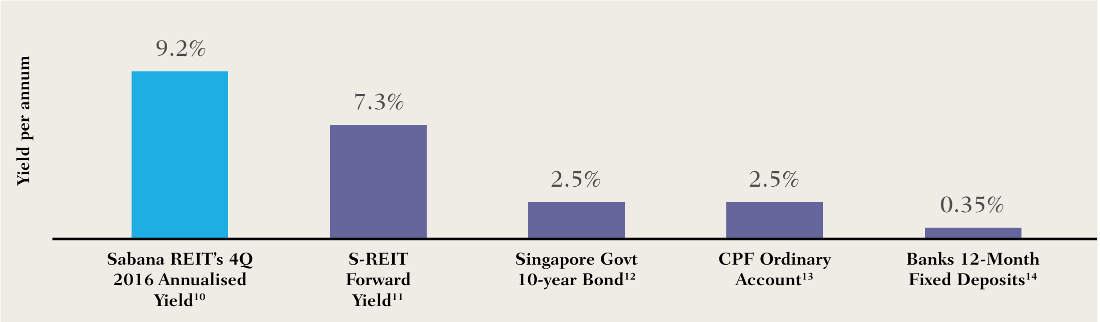
# Unit Performance

## COMPARATIVE TRADING PERFORMANCE SINCE IPO




Source: ShareInvestor

## COMPARATIVE FIELDS




[10] Based on Sabana REIT's closing unit price of S$0.38 as at 30 December 2016 and annualized DPU for the period from 1 October 2016 to 31 December 2016. Adjusted for 310,712,244 Rights Units issued on 25 January 2017.

[11] Source: "Weekly S-REITS Tracker". OCBC Investment Research. 3 January 2017.

[12] Monetary Authority of Singapore data as at 31 December 2016. Source: https://secure.sgs.gov.sg/fdanet/BenchmarkPricesAndYields.aspx. Monetary Authority of Singapore. Web. 16 January 2017.

[13] Minimum 4% interest rate for Special, Medisave and Retirement Account monies to be extended until 31 December 2017. Source: https://www.cpf.gov.sg/members/News/news-categories-info/news-releases/2324. Central Provident Fund Board. Web. 21 September 2016.

[14] Average rates compiled from that quoted by 10 leading banks and finance companies. Source: https://secure.mas.gov.sg/msb/InterestRatesOfBanksAndFinance-Companies.aspx. Monetary Authority of Singapore. Web. 16 January 2017.

# Independent Market Study

By Knight Frank

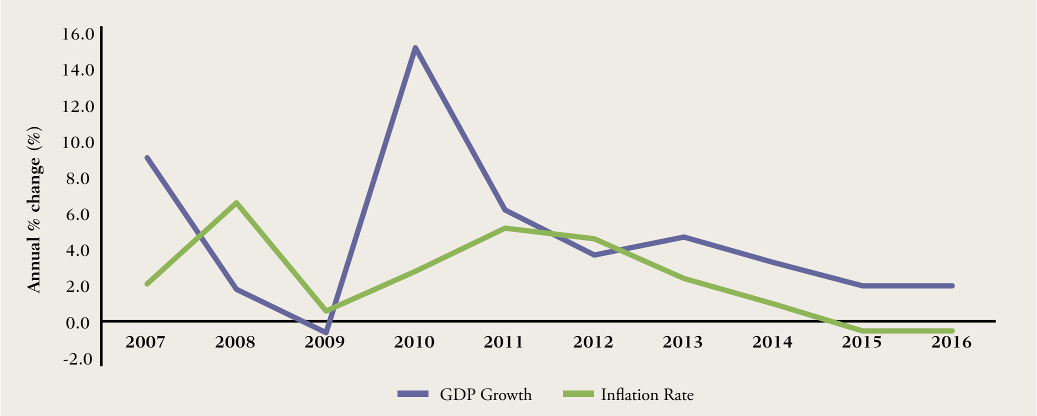
## 1 OVERVIEW OF SINGAPORE ECONOMY

### 1.1 Singapore economic performance

Singapore's Gross Domestic Product ("GDP") grew by 2.0 per cent annually for the whole of 2016, similar to the growth recorded in 2015 (Exhibit 1-1). The modest growth rate was largely influenced by macroeconomic uncertainties spanning from global events such as the Brexit, Trump presidency in the US, and slowdown in China's economy.

Singapore saw an inflation of a negative 0.5 per cent in 2016, largely due to the decline in retail goods inflation which more than offset the increase in services inflation.

**Exhibit 1-1: Singapore GDP growth and Inflation rate, 2007 to 2016**




Source: MTI, Singstat, Knight Frank Research

### 1.2 Manufacturing output and investment commitments

According to Singapore's Index of Industrial Production, the manufacturing sector saw an expansion in output by 3.6 per cent annually in 2016, after a contraction of 5.1 per cent in 2015. For the whole of 2016, output for electronics cluster, biomedical manufacturing cluster and precision engineering cluster rose 15.9 per cent, 13.6 per cent and 0.8 per cent respectively compared to 2015.

Conversely, output for the chemicals cluster, general manufacturing cluster and transport engineering cluster fell by 0.9 per cent, 2.5 per cent and 17.8 per cent respectively in 2016 compared to 2015.

Singapore received close to S$5.8 billion in total manufacturing fixed asset investment ("FAI") in the whole of 2016, 30.1 per cent lower than the S$8.3 billion for 2015 (Exhibit 1-3). The cutback in investment is largely broad-based, with the most significant stemming from the chemicals cluster which accounted for 22.4 per cent of total manufacturing FAI. The electronics cluster, constituting 37.9 per cent of total manufacturing FAI, saw investment commitments fall by 32.6 per cent in 2016 compared to 2015.

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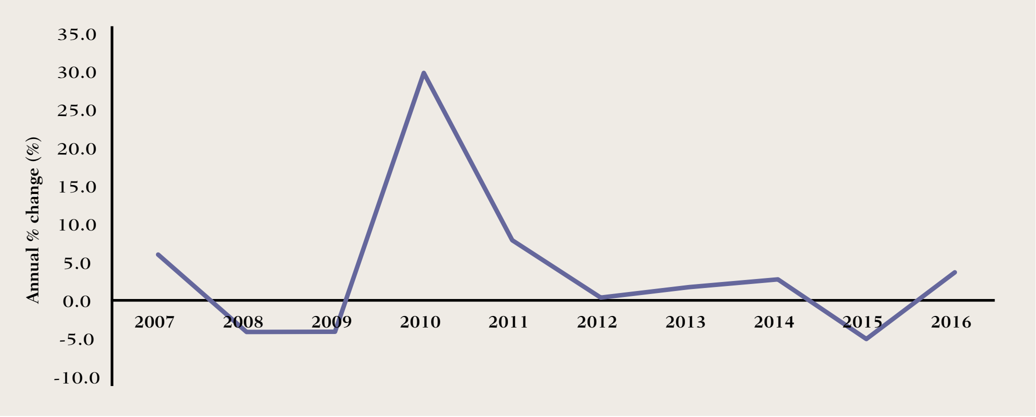
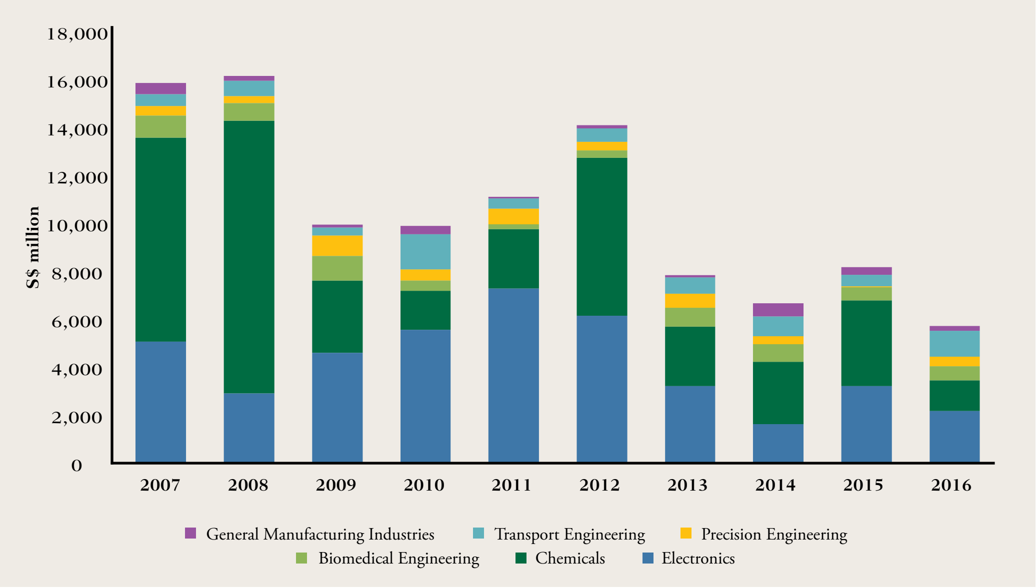
The precision and transport engineering clusters experienced a significant surge in FAI by 809.1 per cent for 2016, albeit from a low base in 2015.

**Exhibit 1-2: Singapore Index of Industrial Production, 2007 to 2016**




Source: Singstat, Knight Frank Research

**Exhibit 1-3: Total Manufacturing Fixed Asset Investments (FAI), 2007 to 2016**




Source: EDB, Knight Frank Research

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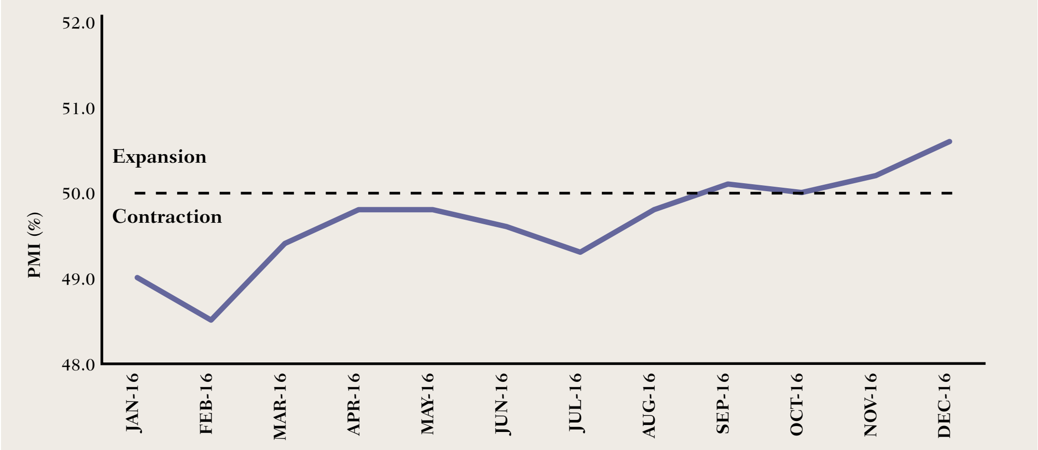
### 1.3 Manufacturing sector

According to the Economic Development Board ("EDB")'s monthly manufacturing performance for December 2016, Singapore's manufacturing output increased 21.3 per cent y-o-y, notably higher than the 11.9 per cent y-o-y growth in November 2016.

All clusters, except the transport engineering cluster, expanded in December 2016. Growth in the electronics cluster (49.4 per cent y-o-y) was largely supported by a 94 per cent increase in output from the electronics cluster. The biomedical manufacturing cluster expanded 44.9 per cent y-o-y in December 2016 due to higher production in the pharmaceutical segment (53.8 per cent y-o-y) and higher output in the medical technology segment (19.0 per cent y-o-y). The precision engineering cluster expanded 6.1 per cent y-o-y on the back of higher export demand for the machinery & systems segment (8.5 per cent y-o-y) and higher output for the precision modules & components segment in December 2016. Similarly, growth seen in the chemical cluster (4.1 per cent y-o-y) was supported by increased output in the petrochemicals (18.4 per cent y-o-y), petroleum (16.7 per cent y-o-y) and specialties (4.1 per cent y-o-y) segments, which was partly offset by decline of 12.6 per cent in the other chemicals segment. In contrast, the transport engineering cluster contracted 10.5 per cent y-o-y due to uneven growths registered for the key segments for the aerospace segment (15.0 per cent y-o-y), land transport segment (11.5 per cent y-o-y), marine & offshore engineering segment (-26.1 per cent y-o-y) in December 2016.

The Singapore Purchasing Managers' Index ("PMI") improved from 49.0 in January 2016 to 50.6 in December 2016. The PMI was in contraction territory between January and August 2016 due to lower demand in new orders, new export and the production output. Since September 2016, the PMI improved with gradual expansion of new orders, new export and higher production output.

**Exhibit 1-4: Singapore Purchasing Managers' Index ("PMI") from January to December 2016**




Source: Singapore Institute of Purchasing & Materials Management (SIPMM), Knight Frank Research

# Independent Market Study

### 1.4 Singapore Economic Outlook for 2017

Based on advanced estimates by Ministry of Trade and Industry (MTI), the Singapore's economy grew by 2.0 per cent for the whole of 2016. Singapore's economy is projected to grow at a modest pace for the rest of the year with sectors such as electronics, information & communications and 'other services industries' likely to support growth, while the wholesale trade and finance & insurance sectors could continue to face external headwinds.

Come 2017, Singapore's open economy remains largely influenced by unfolding global events. While global growth could improve slightly in 2017 on the back of positive economic growth prospects in economies such as the US, Japan and Southeast Asian markets, downside risks in the global economy persists. First, the possible backlash against globalisation and free trade especially from the US could cast a pall on global trade growth. Second, the continuing uncertainties in the UK and EU economies from Brexit may impact global financial market performance and economic growth in Europe. In addition over in Asia, the rising corporate debt levels amid economic restructuring in China, coupled with risks of sharper-than-expected property price corrections could weigh on economic growth prospects of the world's second largest economy. These uncertainties and subsequent headwinds would inevitably affect business and consumer confidence both globally and in Singapore.

Against this macroeconomic backdrop and barring full actualisation of downside risks, the growth outlook for Singapore's economy is expected to be modest in 2017 and MTI forecasts economic growth at a pace of 1.0 to 3.0 per cent. The manufacturing sector is forecast to see an uptick in performance with the prospect of sustained global demand for semi-conductors and semi-conductor equipment, while the marine & offshore engineering segment and firms supporting the global oil and gas industry could see continual challenges and muted demand conditions amidst low oil prices. Externally-oriented services sectors such as finance & insurance and wholesale trade are expected to remain sluggish. On potential growth sectors, information & communications and 'other services industries' are likely to continue to support growth, while tourism-related sectors such as accommodation & food services could benefit from a boost in travel demand as global economic outlook improves.

## 2 SINGAPORE GOVERNMENT POLICIES ON INDUSTRIAL PROPERTY MARKET

### 2.1 Revised subletting rules for REITS from Housing & Development Board ("HDB")

With effect from 1 January 2016, HDB allows REITS to sublet 100% of the GFA whereby 70% of the GFA must be sublet to anchor tenant(s).

### 2.2 Consolidation of HDB industrial land and properties under JTC by Q1 2018

On 19 October 2016, JTC Corporation (JTC) announced that by the first quarter of 2018, some 10,700 industrial units and 540 industrial land leases under the HDB will be transferred to JTC. The consolidation of all public sector industrial land and properties under a single government agency will enable the Government to better support industrialists, in particular small and medium enterprises (SMEs), in their business growth. According to JTC, the contracted terms and conditions of all HDB tenancies and leases with HDB will remain unchanged for the duration of the tenancy or lease contracts.

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Industrialists will have one-stop access to the full range of public sector industrial facilities available. They will receive better support for their land and space needs across the different stages of their growth, as JTC will be able to better match their needs with a larger supply of industrial land and space.

The move also enables the Government to undertake more comprehensive master-planning of industrial estates across Singapore, as well as to facilitate more efficient clustering of complementary activities and integration of activities along the value chain. With the consolidation, some 16,300 industrial units and 3,640 land leases with total land area of 8,100 hectares will be under JTC's fold[1].

## 3 REVIEW OF PRIVATE FACTORY MARKET SEGMENT

### 3.1 Supply, Demand and Occupancy

As at Q4 2016, the existing stock of private factory space totalled 340.5 million sq ft NLA, a 4.2 per cent annual increase from the same period in 2015. Of which, 65.8 per cent (224.2 million sq ft) were single-user factory while multiple-user factory and business park space accounted for the remaining 28.4 per cent (96.8 million sq ft) and 5.7 per cent (19.5 million sq ft) respectively. Net new supply stood at 13.7 million sq ft in 2016, a 16.1 per cent y-o-y increase, and is 20.0 per cent higher than the ten-year average annual net new supply of 11.4 million sq ft between 2007 and 2016.

**Exhibit 3-1: Selected Major Private Factory Completions in 2016**

| Development | Location | Region | Developer | Approximated Gross Floor Area ("GFA") sq ft |
|---|---|---|---|---|
| **Q1 2016** | | | | |
| T99 | 1, 1A, 3, 3A, 5, 5A, 5B, 7, 7A, 7B, 9 Tuas South Avenue 10 | West Region | Soon Hock Group Pte Ltd | 596,000 |
| Ascent | 2 Science Park Drive | Central Region | Ascendas Land (S) Pte Ltd | 555,000 |
| Loyang Enterprise Building | 56 Loyang Way | West Region | OKH Global Ltd | 555,000 |
| E9 Premium | 61 Woodlands Industrial Park E9 | North Region | Incorporated Woodlands Pte Ltd | 451,000 |
| Single-user factory | 535 Yishun Industrial Park A | North Region | ASM Technology Singapore Pte Ltd | 268,000 |

[1] Source: The Business Times: 'All HDB Industrial Space to be under JTC by Q1 2018', 20 October 2016

# Independent Market Study

| Development | Location | Region | Developer | Approximated Gross Floor Area ("GFA") sq ft |
|---|---|---|---|---|
| **Q2 2016** | | | | |
| West Connect Building | 10 Buroh Street | West Region | Publique Realty (Jurong) Pte Ltd | 737,000 |
| Single-user factory | 622 Lorong 1 Toa Payoh | Central Region | Philips Electronics Singapore Pte Ltd | 409,000 |
| Single-user factory | 33 Kaki Bukit Road 6 | East Region | SEF Group Ltd | 351,000 |
| Woodlands Industrial Xchange | 71 Woodlands Avenue 10 | North Region | BH-ZACD (Woodlands) Pte Ltd | 288,000 |
| **Q3 2016** | | | | |
| Single-user factory | 1 North Coast Drive | North Region | Micron Semiconductor Asia Pte Ltd | 1,655,000 |
| Single-user industrial development | 8 Bulim Avenue | West Region | Supply Chain City Pte Ltd | 1,425,000 |
| Mapletree Business City II | 40, 50, 60, 70 & 80 Pasir Panjang Road | Central Region | Mapletree Business City Pte Ltd | 1,344,000 |
| The Index | 110 Tuas South Avenue 3 | West Region | Grow-Tech Properties Pte Ltd | 596,000 |
| Single-user factory | 42A Penjuru Road | West Region | Mencast Marine Pte Ltd | 392,000 |
| Single-user factory | 1 Tuas South Way | West Region | Shell Eastern Petroleum Pte Ltd | 384,000 |
| Interlocal Centre | 100G Pasir Panjang Road | Central Region | Interlocal Exim Pte Ltd | 380,000 |
| **Q4 2016** | | | | |
| Greyform Building | 21, 23 Kaki Bukit Road 6 | Central Region | Straits Construction Singapore Pte Ltd | 346,000 |
| Mapletree 18 | 18 Tai Seng Street | East Region | Mapletree Trustee Pte Ltd | 443,000 |
| Multiple-user factory | 1, 1A Depot Close | Central Region | Mapletree Industrial Trust Management Ltd | 825,000 |
| Single-user factory | 8 Yung Ho Road | West Region | Singapore Telecommunications Ltd | 568,000 |

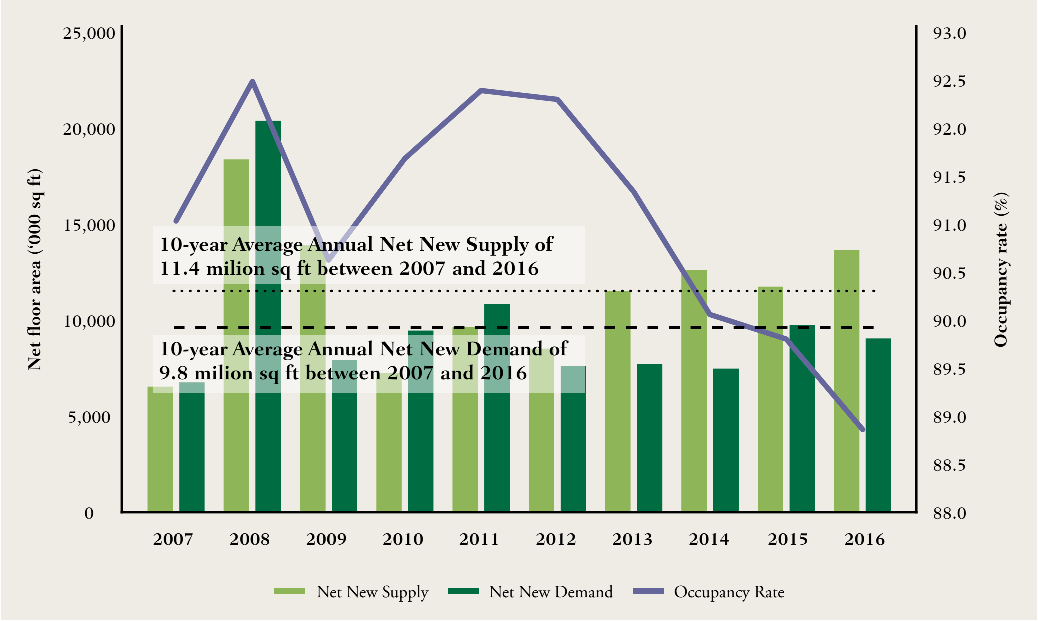
Source: JTC, Knight Frank Research

# Independent Market Study

Overall net new demand for private factory space slipped 7.2 per cent y-o-y in 2016, to 9.1 million sq ft in 2016. This is about 6.8 per cent lower than the ten-year average annual net new demand of 9.8million sq ft between 2007 and 2016.

The higher supply and lower demand for factory spaces dragged occupancy of private factory space to 88.9 per cent in 2016. In particular, occupancy rate for private single-user factory space declined from 91.9 per cent in Q4 2015 to 90.4 per cent in Q4 2016 with some industrialists undergoing rationalization of their business operations manage operating costs.

**Exhibit 3-2: Net New Supply, Net New Demand and Occupancy of Private Factory Space**




Source: JTC, Knight Frank Research

## 3.2 Potential Supply

As at Q4 2016, an estimated 25.5 million sq ft GFA of new private factory space is set for completion between 2017 and 2021. Of which, single-user factory space accounted for 67.9 per cent (17.3 million sq ft), while multiple-user factory and business parks constitute the remaining 31.0 per cent (7.9 million sq ft) and 1.1 per cent (0.2 million sq ft) respectively. The bulk of upcoming private factory space (48.8 per cent or 12.5 million sq ft) is expected to be ready by the end of 2017.

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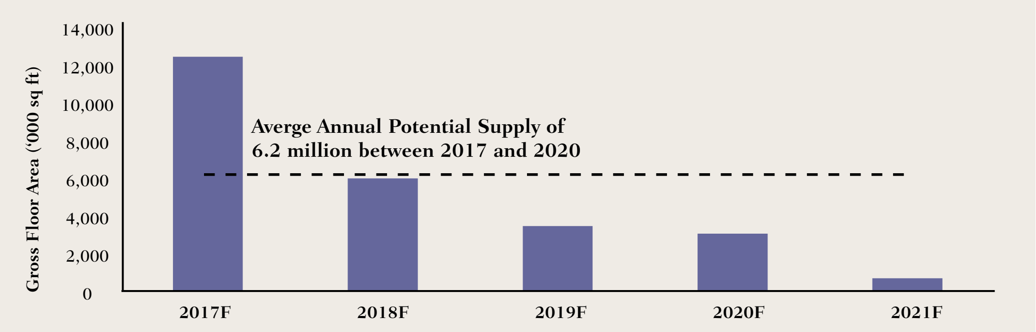
A total of 11 industrial sites (with a combined site area of 11.25 ha) are listed in H1 2017 under the Industrial Government Land Sales ("IGLS") Programme. Six sites are placed under the Confirmed List while the remaining five sites on the Reserve List, totalling about 0.6 million sq ft and 1.6 million sq ft of future potential industrial space, respectively. As a continued approach from the Singapore government to keep business costs affordable for genuine industrialists, smaller sites with shorter lease tenures of between 20 to 30 years are launched for H1 2017.

**Exhibit 3-3: Upcoming Major Factory Developments in 2017**

| Development | Location | Region | Developer | Estimated GFA (sq ft) |
|---|---|---|---|---|
| Multiple-user factory | Depot Road | Central Region | Mapletree Industrial Trust Management Ltd | 421,000 |
| Nordcom One | Gambas Crescent | North Region | Growth-Tech Properties Pte Ltd | 325,000 |
| Proxima @ Gambas | Gambas Crescent | North Region | NSS Realty Pte Ltd | 422,000 |
| Single-user factory | Airport Road | Central Region | Soilbuild Pte Ltd | 338,000 |

Source: JTC, Knight Frank Research

**Exhibit 3-4: Potential Supply of Private Factory Space**



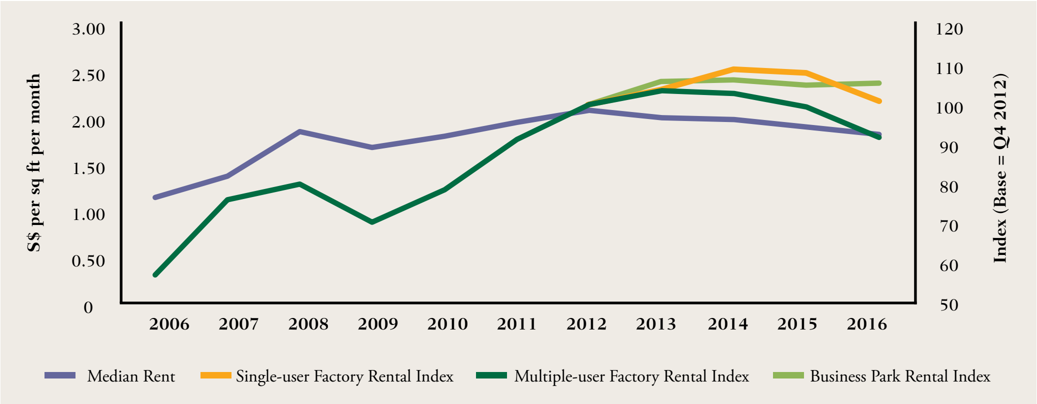

Source: JTC, Knight Frank Research

# Independent Market Study

## 3.3 Rents

Island-wide median rent of overall factory space is estimated at $1.82 per sq ft per month in 2016, posting an annual fall of 4.2 per cent. JTC rental index for business park improved 0.5 per cent y-o-y, but rental indices for single-user and multiple-user factory space declined by 6.6 per cent and 7.7 per cent respectively on an annualized basis. The completion of new business park spaces have jostle business park rents upwards, while the softer economic environment continued to dampen single-user and multiple-user factory rents.

**Exhibit 3-5: JTC Median Rents and Rental Indices of Private Factory Space by Types, as at Q4 2016**




* Median rents based on island-wide actual rental transaction and as at fourth quarter of each corresponding year
** JTC rental indices include private factory transactions only. The rental indices for single-user factory and business park space are available from 2012 onwards

Source: JTC, Knight Frank Research

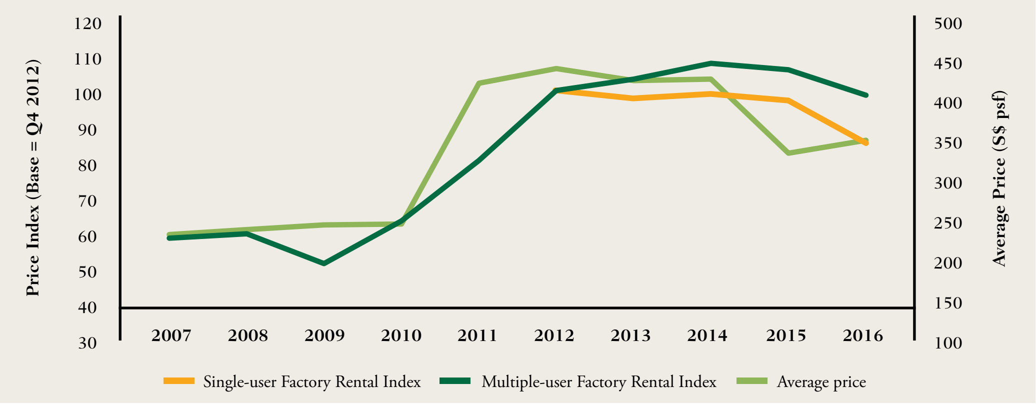
## 3.4 Prices

A total of 691 caveats[2] were lodged in 2016 for upper-floor strata-titled factory units, a 21.7 per cent decline from 2016 and registering the lowest transaction volume since the implementation of Seller's Stamp Duty (SSD) in 2013. Overall island-wide average price of upper-floor strata-titled factory units improved by 4.8 per cent y-o-y to S$349 per sq ft in Q4 2016. In comparison, JTC price indices of multiple-user and single-user factory slipped 6.8 per cent y-o-y and 12.1 per cent y-o-y respectively.

[2] Based on caveats lodged from REALIS as at 25 January 2017

# Independent Market Study

**Exhibit 3-6: JTC Price Indices and Average Price of Factory Space, as at Q4 2016**




* Average prices are based on caveats lodged in REALIS and accounted for only upper floor strata-titled factory units (as at 25 January 2017)

Source: JTC, REALIS, Knight Frank Research

## 3.5 Investment Sales

For the first half of 2016, investment sales volume of private factories (including business parks) stood at a total investment value of S$276.1 million. Investment sales value surged to a total of S$253.4 billion for the second half of 2016. Total investment sales of private factories (including business parks) totalled S$529.5 million[3] for the whole of 2016.

**Exhibit 3-7: Top Major Private Factory Investment Sales in 2016**

| Key Private Factory Investment Sales in 2016 | | | | | |
|---|---|---|---|---|---|
| **Property** | **Location** | **Tenure** | **Purchaser** | **GFA (sq ft)** | **Price (S$)** |
| **Q1 2016** | | | | | |
| Harper Kitchen | Harper Road | Freehold | Consortium led by Nanshan Group | 54,239 | 51,100,000 |
| 22 Senoko Way | Senoko Way | LH 30 years wef 1 March 1990 | Thong Siek Food Industry Pte Ltd | N.A. | 15,000,000 |
| Swee Hin Building | 91 Defu Lane | LH 30 years wef 1 May 1990 | N.A. | N.A. | 22,300,000 |
| Eunos Techpark | 2 Kaki Bukit Place | LH 60 years wef 20 Nov 1995 | N.A. | N.A. | 10,200,000 |

[3] Information accurate as at 2 February 2017

# Independent Market Study

| Property | Location | Tenure | Purchaser | GFA (sq ft) | Price (S$) |
|---|---|---|---|---|---|
| Q2 2016 | | | | | |
| Bukit Batok Connection | Bukit Batok Street 23 | LH 30 years wef 26 Nov 2012 | Soilbuild Business Space REIT | 403,592 | 96,300,000 |
| 38 Alexandra Terrace | 38 Alexandra Terrace | Freehold | Secura Group Limited | N.A. | 16,500,000 |
| 55 Kranji Crescent | 55 Kranji Crescent | LH 19 years wef 1 Feb 2006 | Samwoh Premix Pte. Ltd. | N.A. | 12,300,000 |
| 1 Tuas Basin Link | 1 Tuas Basin Link | LH 60 + 30 years wef 16 Jul 1994 | Avance Living Pte Ltd | N.A. | 10,000,100 |
| Q3 2016 | | | | | |
| 75 Tuas South Street 5 | 75 Tuas South Street 5 | LH 30 + 24 years wef 1 Jan 2006 | N.A | N.A. | 16,000,000 |
| Sinar Mas Building | 118 Pioneer Road | LH 30 + 30 years wef 1 Jan 1996 | N.A | N.A. | 26,030,000 |
| Q4 2016 | | | | | |
| 6 Chin Bee Avenue | Chin Bee Avenue | LH 30 years wef 16 Oct 2013 | Viva Industrial Trust | 324,166 | 87,300,000 |
| 107 Eunos Avenue 3 | Eunos Avenue 3 | LH 30 years wef 1 Jan 2011 | Sabana REIT | 133,946 | 34,500,000 |
| 26 Senoko Way | Senoko Way | N.A. | Kee Song Bio-Technology | N.A. | 24,811,370 |

**Notes:**
To be considered as private investment sales under Knight Frank Research definition, it must fulfil either one of the following pre-requisite:-
- Investment transactions should comprise an entire building or property with a total worth of S$10 million and above; OR
- Any bulk sales within a development which amounts to S$10 million or more

*Figures stated are based on Net Lettable Areas

Source: JTC, REALIS, Knight Frank Research

# Independent Market Study

## 3.6 Outlook

**Modest demand likely for private factory segment along with muted manufacturing prospects**

The confluence of macroeconomic and domestic factors - slower global demand, China economic growth moderation, weakness of the oil & gas sector and cautious business and consumer sentiment is expected to weigh on Singapore's industrial property market performance for the whole year of 2017. Apart from electronics, precision engineering and food manufacturing clusters that could potentially outperform and support the overall manufacturing sector in 2017, the chemicals cluster and marine & offshore engineering segment are envisaged to remain relatively weak in the near term till the benefits of a possible oil price recovery filter through these industries over a longer period of time. Impacted by weak order books amid low oil prices, key and supporting trades in the oil & gas sector are likely to exercise caution in expansion or relocation plans of their industrial real estate.

The prospect of a subdued economic outlook and potentially muted overall performance of the manufacturing sector are exerting pressures on industrialists and SME end-users to manage their occupancy and operating costs more tightly. Additionally, the influx of upcoming supply of 52.1 million sq ft of overall industrial space from end-2016 to 2020, of which 23.3 million sq ft (45 per cent of total) is slated for completion by 2017, would provide ample choices for industrial tenants and users, intensifying competition in the sales and leasing markets and constraining price and rental growth in the near term.

After posting steeper y-o-y declines in the third quarter of 2016, overall industrial property prices and rentals are forecast to register y-o-y declines of between -10 per cent to -8 per cent movement by the last quarter of 2016, with possibly similar magnitude of fall for 2017 should manufacturing sector performance remain weak for next year.

With industrial property cooling measures likely to remain in place and coupled with the challenging business climate, transaction of strata-titled multiple-user factory units could stay relatively sluggish over the next two to three quarters, especially for shorter balance lease tenures. Coupled with an upcoming injection of 5.8 million sq ft GFA of new multiple-user factory space in 2017, average price of multiple-user factory space could adjust downwards by between -6 and -4 per cent y-o-y by Q4 2017. Average rents for multiple-user factory space is envisaged to fall by a larger magnitude, of between -8 and -5 per cent y-o-y in Q4 2017, barring unforeseen macroeconomic circumstances and policy changes.

The demand for single-user factory spaces is expected to remain subdued for the last quarter of 2016 and through to 2017. Despite the high upcoming new supply, most of the sublet tenants prefer to be located near their supporting trades and would avoid incurring high relocation costs. Hence, prices are expected to trend lower with an overall -11 to -13 per cent y-o-y fall in this segment by Q4 2016, while rentals could register -7 to -9 per cent y-o-y decline for the same period. Prices and rents could decline further by -7 to -5 per cent y-o-y by Q4 2017.

# Independent Market Study

**New better quality multiple-user industrial spaces poised to uplift industrial landscape**

The sale of industrial sites to private developers under the iGLS programme in recent years would introduce new industrial spaces with better specifications for end-users. Additionally, JTC's plans to develop higher quality large-scale integrated facilities to amalgamate key and supporting industrial trades are progressing with major hubs such as JTC Chemicals Hub @ Tuas South, JTC Food Hub @ Senoko, JTC nanoSpace @ Tampines to be completed by end-2016 and 2017. These new developments serve to uplift and upscale the overall standard of Singapore's industrial properties, breaking new grounds to plan, design and house various industrial trades and shared facilities more efficiently. The injection of these new developments, along with JTC's efforts, would spur the industry's transformation towards higher productivity and competitiveness.

**Flight to business parks for qualifying tenants expected to slow from mid-2017 as office-business park rental gap narrows**

Against the backdrop of potential stable demand from a larger pool of qualifying trades such as technology, media and telecommunications, medical technology and e-commerce, the outlook for business park segment is envisaged to stay fairly healthy in 2017. With the high occupancy of business parks and the gradual convergence of office and business park rentals, the 'flight for rent savings' from office to business park spaces by qualifying tenants is envisaged to slow from mid-2017 onwards.

Supported by the limited new supply of business park space beyond 2016 despite the prevailing muted economic outlook, occupancy is likely to remain stable especially for better-designed and well-located business park developments in 2017. Island-wide occupancy is expected to hover between 80.0 to 85.0 per cent, while rents may see sideway trending of between minus 1 per cent drop to 2 per cent y-o-y growth by Q4 2017.

## 4 REVIEW OF WAREHOUSE MARKET SEGMENT

### 4.1 Supply, Demand and Occupancy

As at Q4 2016, the existing stock of private warehouse space totalled 101.4 million sq ft NLA, or a 7.2 per cent annual increase from 2015. Net new supply increased by 33.1 per cent y-o-y in 2016 to register at 6.8 million sq ft. This is 43.6 per cent higher than the ten-year average annual net new supply of 3.8 million sq ft between 2007 and 2016.

# Independent Market Study

**Exhibit 4-1: Selected Major Private Warehouse Completions in 2016**

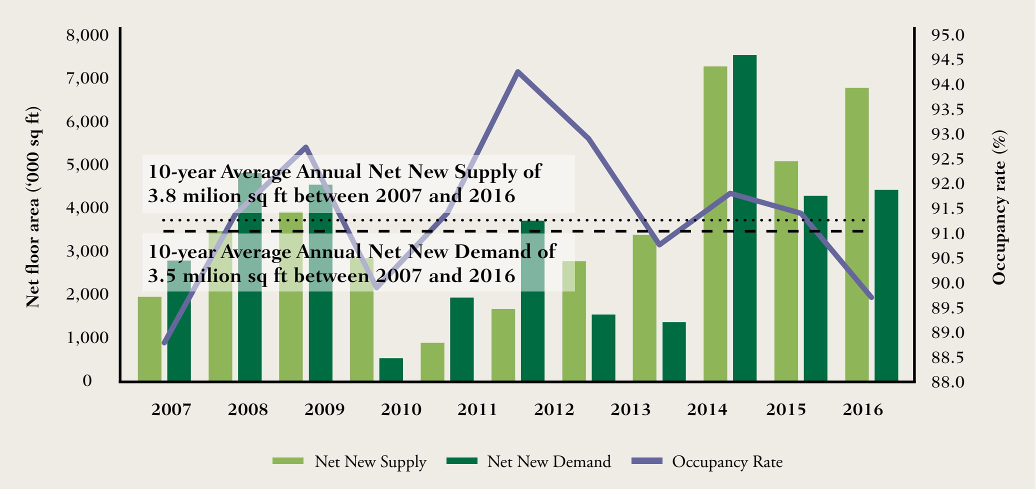
| Development | Location | Region | Developer | Estimated GFA (sq ft) |
|---|---|---|---|---|
| **Q1 2016** | | | | |
| Mapletree Logistics Hub | 5B Toh Guan Road East | West Region | Mapletree Logistics Trust Management Ltd | 684,000 |
| **Q2 2016** | | | | |
| SingPost Regional eCommerce Logistics Hub | 37,39 Greenwich Drive | North Region | Singapore Post Limited | 553,000 |
| Warehouse development | 6 Chin Bee Avenue | North Region | Sharikat National Pte Ltd | 324,000 |
| **Q3 2016** | | | | |
| Warehouse development | 18 Sungei Kadut | North Region | World Furnishing Hub Pte Ltd | 296,000 |
| **Q4 2016** | | | | |
| Warehouse development | 30 Tuas West Road | West Region | AIMS AMP Capital Industrial REIT | 288,000 |

Source: JTC, Knight Frank Research

Net new demand for private warehouse space increased 3.3 per cent to 4.4 million sq ft in 2016 from the previous year. Comparatively, this is about 21.5 per cent higher than the ten-year average annual net new demand of 3.5 million sq ft between 2007 and 2016, indicating a relatively healthy demand for private warehouse space. With the new supply of warehouse space exceeding demand, occupancy declined by 1.7 ppt from 91.4 per cent in 2015 to 89.7 per cent in 2016.

# Independent Market Study

**Exhibit 4-2: Net New Supply, Net New Demand and Occupancy of Private Warehouse Space**

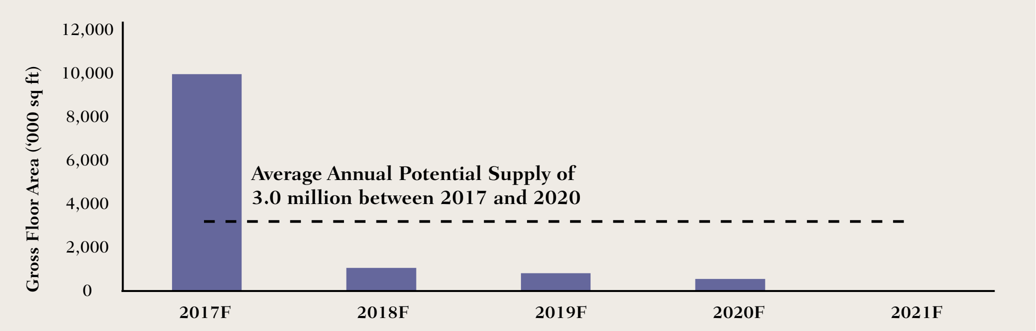



Source: JTC, Knight Frank Research

## 4.2 Potential Supply

As at Q4 2016, about 12.0 million sq ft GFA new private warehouse space is set for completion between 2017 and 2021. The bulk of new supply (80.3 per cent or 9.6 million sq ft) is expected to be ready by the end of 2017.

**Exhibit 4-3: Potential Supply of Private Warehouse Space**




Source: JTC, Knight Frank Research

# Independent Market Study

**Exhibit 4-4: Selected Upcoming Major Warehouse Completions in 2017**

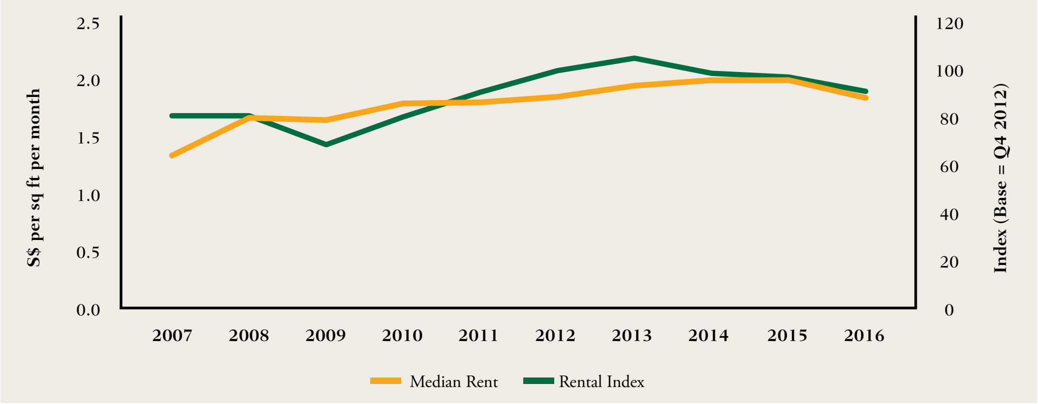
| Development | Location | Region | Developer | Estimated GFA (sq ft) |
|---|---|---|---|---|
| Warehouse development | Benoi Road | West Region | GKE Warehousing & Logistics Pte Ltd | 428,000 |
| Warehouse development | Pandan Road | West Region | Poh Tiong Choon Logistics Limited | 548,000 |
| Warehouse development | Pioneer Road | West Region | HSBC Institutional Trust Sevices (Singapore) Ltd | 772,000 |
| Warehouse development | Pioneer Road | West Region | Toll Logistics (Asia) Ltd | 1,089,000 |

Source: JTC, Knight Frank Research

## 4.3 Rents

As at Q4 2016, island-wide median rent of warehouse space slipped to $1.84 per sq ft per month, 8.0 per cent lower compared to the previous year. JTC rental index of warehouse space saw an annual decline of 6.4 per cent in 2016. This was attributed to the surplus supply of warehousing space, and a tighter restriction over industrial space usage through the JTC subletting rule where anchor tenants have to occupy at least 70 per cent of the building GFA.

**Exhibit 4-5: JTC Median Rents and Rental Index of Warehouse Space**




*Median rents based on island-wide actual rental transaction and as at fourth quarter of each corresponding year
*JTC rental index is based on private warehouse rental transactions

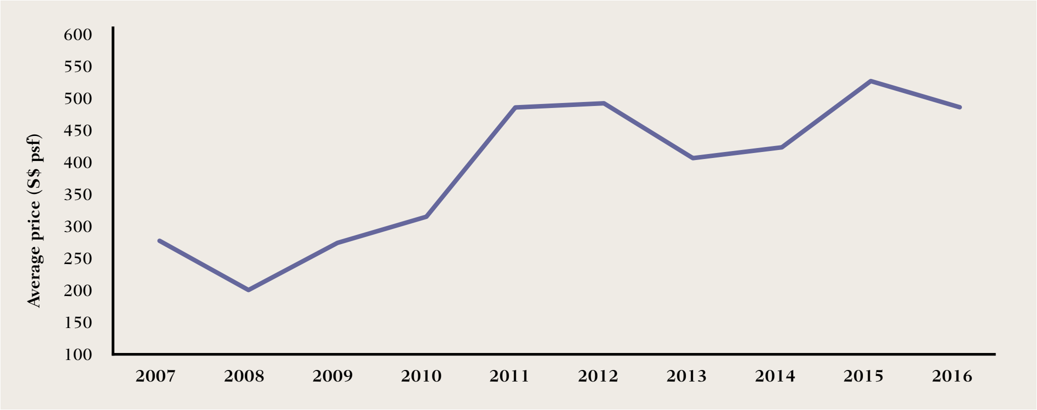
Source: JTC, Knight Frank Research

# Independent Market Study

## 4.4 Prices

As at Q4 2016, there were 38 caveats[4] lodged for upper-floor strata-titled warehouse units, 19.1 per cent lower than the 47 caveats lodged in 2015. Average prices of upper-floor strata-titled warehouse units slipped to S$488 per sq ft in Q4 2016.

**Exhibit 4-6: Average Price of Warehouse Space, as at Q4 2016**




*There is no available JTC price index since Q4 2014 due to insufficient transactions to compile an index that is reflective of the warehouse market
*Average prices are based on caveats lodged in REALIS and accounted for only upper floor strata-titled warehouse units (as at 28 January 2017)

Source: JTC, REALIS, Knight Frank Research

## 4.5 Investment Sales

The private warehouse investment activities stood at S$49.1 million in first half of 2016 and increased to S$181.2 million in the second half of 2016. Total private investment sales for warehouses amounted to S$230.3 million for the whole of 2016. Amid challenging business environment for industrialists, REITs are particularly actively seeking for potential acquisitions of yield accretive industrial properties in the second half of 2016.

[4] Based on caveats lodged from REALIS and accurate as at 25 January 2017

# Independent Market Study

**Exhibit 4-7: Selected Major Private Warehouse Investment Sales in 2016**

| Property | Location | Tenure | Purchaser | GFA sq ft | Price (S$) |
|---|---|---|---|---|---|
| **Q1 2016** | | | | | |
| Tuas Techpark | Tech Park Crescent | LH-60 years wef 18 Aug 1993 | N.A. | N.A. | 12,120,000 |
| 11 Gul Crescent | 11 Gul Crescent | Balance lease of 25 years from 2016 | JTC | N.A. | 20,498,640 |
| 215 Pandan Loop | 215 Pandan Loop | Not available | JTC | 90,762 | 12,779,000 |
| **Q2 2016** | | | | | |
| 23 Tuas Avenue 10 | 23 Tuas Avenue 10 | LH 30 + 29 years wef 1 Nov 1997 | Reliance Products Pte Ltd | 102,311 | 16,500,000 |
| **Q4 2016** | | | | | |
| 6 Chin Bee Avenue | 6 Chin Bee Avenue | LH-30 years wef 25 Oct 2013 | Viva Industrial Trust | 324,166 | 87,300,000 |
| 218 Pandan Loop | 218 Pandan Loop | LH 30 + 30 years wef 16 Sep 1989 | X Properties Inc Pte Ltd. | 50,374 | 14,800,000 |
| 72 Eunos Avenue 7 | 72 Eunos Avenue 7 | LH 30 years wef 1 Jan 2011 | Sabana REIT | 67,977 | 20,000,000 |
| 47 Changi South Avenue 2 | 47 Changi South Avenue 2 | LH 30 + 30 years wef 16 Nov 1996 | Sabana REIT | 91,573 | 23,000,000 |
| Cache Changi Districentre 3 | Changi North Way | Balance lease of 17 years from 2016 | Agility International Logistics | 177,000 | 25,500,000 |

**Notes:**
To be considered as private investment sales under Knight Frank Research definition, it must fulfil either one of the following pre-requisite:-
- Investment transactions should comprise an entire building or property with a total worth of S$10 million and above; OR
- Any bulk sales within a development which amounts to S$10 million or more

*Figures stated are Net Lettable Areas

Source: JTC, Knight Frank Research

# Independent Market Study

### 4.6 Outlook

**Warehousing sector likely to support growth in industrial property demand**

Benefitting from the growing e-commerce landscape, the warehousing and logistics sector is projected to see continual and stable growth in demand over the next two to three years. Segments such as self-storage facilities for households and businesses, as well as specialized cold room warehousing facilities, could be the outperformers in this property segment along with evolution in living spaces, business operating models and the growth of the food & beverage industry.

Against the backdrop of subdued global trade movement, modest economic growth and the prospects of weaker consumption by both households and businesses, the demand for warehousing space could soften in the short term next year. The large injection of 11.4 million sq ft of new warehouse spaces in end-2016 and 2017 is envisaged to moderate occupancy and rental performance. Rental movement of warehouse space is projected to decline by -8 to -10 per cent y-o-y in Q4 2016, with a further -8 to -6 per cent in Q4 2017.

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# Independent Market Study

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# Property Portfolio

As at 31 December 2016

Our properties are diversified into four industrial segments across Singapore, close to expressways and public transportation.


## HIGH-TECH INDUSTRIAL

01 151 Lorong Chuan
02 8 Commonwealth Lane
03 9 Tai Seng Drive
04 15 Jalan Kilang Barat
05 1 Tuas Avenue 4
06 23 Serangoon North Avenue 5
07 508 Chai Chee Lane

## CHEMICAL WAREHOUSE & LOGISTICS

08 33 & 35 Penjuru Lane
09 18 Gul Drive

## WAREHOUSE & LOGISTICS

10 34 Penjuru Lane
11 51 Penjuru Road
12 26 Loyang Drive
13 218 Pandan Loop[1]
14 3A Joo Koon Circle
15 2 Toh Tuck Link
16 10 Changi South Street 2

## GENERAL INDUSTRIAL

17 123 Genting Lane
18 30 & 32 Tuas Avenue 8
19 39 Ubi Road 1
20 21 Joo Koon Crescent
21 6 Woodlands Loop

[1] SGX announcement on proposed divestment was made on 5 December 2016.

# Property Portfolio

## 151 LORONG CHUAN
**New Tech Park, Singapore 556741**

A six-storey industrial building with a ground level carpark

Purchase Consideration (S$ million)
305.9

Latest Valuation (As at 31 December 2016) (S$ million)
316.0

Gross Rental Income for FY 2016 (S$ million)
23.0

Occupancy Rate[1] (%)
87.5

Land Lease Expiry
2055
45 yrs with effect from ("wef") 26 Nov 2010

GFA (sq ft)
810,710

1 Occupancy rates stated from pages 44 to 54 are as at 31 December 2016.

## 8 COMMONWEALTH LANE
**Singapore 149555**

A four-storey industrial building with a six-storey annex

Purchase Consideration (S$ million)
70.3

Latest Valuation (As at 31 December 2016) (S$ million)
57.0

Gross Rental Income for FY 2016 (S$ million)
4.6

Occupancy Rate (%)
80.6

Land Lease Expiry
2059
30 + 23 yrs wef 1 Feb 2006

GFA (sq ft)
161,815

# Property Portfolio


## 9 TAI SENG DRIVE
**Geo-Tele Centre, Singapore 535227**

A six-storey industrial building with a basement carpark

Purchase Consideration
(S$ million)
46.3

Latest Valuation
(As at 31 December 2016)
(S$ million)
41.0

Gross Rental Income
for FY 2016
(S$ million)
3.1

Occupancy Rate
(%)
100.0

Land Lease Expiry
2055
30 + 30 yrs wef
1 Jun 1995

GFA
(sq ft)
218,905

## 15 JALAN KILANG BARAT
**Frontech Centre, Singapore 159357**

An eight-storey industrial building with a multi-storey carpark at Levels Two & Three

Purchase Consideration
(S$ million)
34.5

Latest Valuation
(As at 31 December 2016)
(S$ million)
23.0

Gross Rental Income
for FY 2016
(S$ million)
1.8

Occupancy Rate
(%)
91.8

Land Lease Expiry
2060
99 yrs wef 1 Jan 1962

GFA
(sq ft)
73,928

# Property Portfolio

## 1 TUAS AVENUE 4
**Singapore 639382**

Proposed part three-/part six-storey industrial building currently under additions & alterations works

Purchase Consideration
(S$ million)
28.0

Latest Valuation
(As at 31 December 2016)
(S$ million)
32.4

Gross Rental Income
for FY 2016
(S$ million)
2.7

Occupancy Rate
(%)
100.0

Land Lease Expiry
2047
30 + 21 yrs 4 mths wef
1 Jan 1996

GFA
(sq ft)
160,361

## 23 SERANGOON NORTH AVENUE 5
**BTH Centre, Singapore 554530**

A five-storey industrial building with a mezzanine level

Purchase Consideration
(S$ million)
61.0

Latest Valuation
(As at 31 December 2016)
(S$ million)
41.0

Gross Rental Income
for FY 2016
(S$ million)
1.9

Occupancy Rate
(%)
31.0

Land Lease Expiry
2056
30 + 20 yrs 15 days wef
16 Sep 2006

GFA
(sq ft)
159,384

# Property Portfolio

## 508 CHAI CHEE LANE
**Singapore 469032**

A seven-storey industrial building with two basements

Purchase Consideration
(S$ million)
67.2*

Latest Valuation
(As at 31 December 2016)
(S$ million)
56.8

Gross Rental Income
for FY 2016
(S$ million)
5.4

Occupancy Rate
(%)
71.8

Land Lease Expiry
2060
30 + 29 yrs wef
16 Apr 2001

GFA
(sq ft)
319,718

* Includes land premium of approximately S$7.5 million paid to JTC.

## 33 & 35 PENJURU LANE
**Freight Links Express Logisticpark, Singapore 609200/609202**

Comprising three buildings, including a single storey warehouse with mezzanine floor, a four-storey warehouse and a part single-storey/ part three-storey warehouse with a basement

Purchase Consideration
(S$ million)
78.9

Latest Valuation
(As at 31 December 2016)
(S$ million)
60.0

Gross Rental Income
for FY 2016
(S$ million)
4.7

Occupancy Rate
(%)
100.0

Land Lease Expiry
2049
30 + 31 yrs wef
16 Feb 1988

GFA
(sq ft)
286,192

# Property Portfolio

## 18 GUL DRIVE
**Singapore 629468**

A part two-/part four-storey warehouse

Purchase Consideration
(S$ million)
34.1

Latest Valuation
(As at 31 December 2016)
(S$ million)
24.5

Gross Rental Income
for FY 2016
(S$ million)
2.2

Occupancy Rate
(%)
100.0

Land Lease Expiry
2038
13 yrs 10 mths 12 days +
20 yrs wef 1 Nov 2004

GFA
(sq ft)
132,878

## 34 PENJURU LANE
**Penjuru Logistics Hub,**
**Singapore 609201**

A five-storey warehouse with ancillary offices

Purchase Consideration
(S$ million)
60.0

Latest Valuation
(As at 31 December 2016)
(S$ million)
40.7

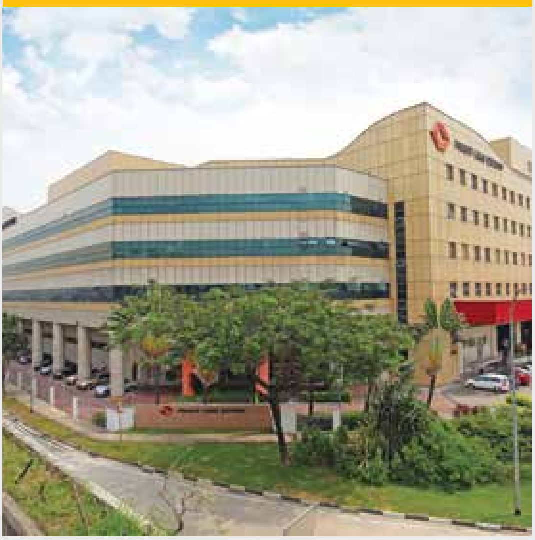
Gross Rental Income
for FY 2016
(S$ million)
4.8

Occupancy Rate
(%)
83.6

Land Lease Expiry
2032
30 yrs wef 16 Aug 2002

GFA
(sq ft)
414,270

# Property Portfolio



## 51 PENJURU ROAD

**Freight Links Express Logisticentre, Singapore 609143**

A part single/part three-/part four-storey warehouse building with mezzanine floor

Purchase Consideration
(S$ million)

42.5

Latest Valuation
(As at 31 December 2016)
(S$ million)

46.8

Gross Rental Income
for FY 2016
(S$ million)

3.2

Occupancy Rate
(%)

100.0

Land Lease Expiry

2054
30 + 30 yrs wef
1 Jan 1995

GFA
(sq ft)

246,376


## 26 LOYANG DRIVE

**Singapore 508970**

A single-storey warehouse building with mezzanine floors

Purchase Considerationt
(S$ million)

32.0

Latest Valuation
(As at 31 December 2016)
(S$ million)

24.7

Gross Rental Income
for FY 2016
(S$ million)

2.3

Occupancy Rate
(%)

100.0

Land Lease Expiry

2053
30 + 18 yrs wef
1 Jan 2006

GFA
(sq ft)

149,166

# Property Portfolio

## 218 PANDAN LOOP
**Singapore 128408**

A single-storey cold room warehouse with mezzanine floor and a two-storey office building

Purchase Consideration
(S$ million)
13.5

Latest Valuation
(As at 31 December 2016)
(S$ million)
13.0

Gross Rental Income
for FY 2016
(S$ million)
0.0*

Occupancy Rate
(%)
0.0*

Land Lease Expiry
2049
30 + 30 yrs wef
16 Sept 1989

GFA
(sq ft)
50,374

* Currently vacant, divestment (announced on 5 December 2016) pending JTC approval.

## 3A JOO KOON CIRCLE
**Singapore 629033**

A two-storey warehouse building with mezzanine floor and a part three-/part four-storey factory building

Purchase Consideration
(S$ million)
40.3

Latest Valuation
(As at 31 December 2016)
(S$ million)
39.0

Gross Rental Income
for FY 2016
(S$ million)
3.0

Occupancy Rate
(%)
100.0

Land Lease Expiry
2047
30 + 30 yrs wef
1 Aug 1987

GFA
(sq ft)
217,899

# Property Portfolio

## 2 TOH TUCK LINK
**Singapore 596225**

A part four-/part six-storey warehouse building with a basement carpark

Purchase Consideration
(S$ million)
40.1

Latest Valuation
(As at 31 December 2016)
(S$ million)
32.3

Gross Rental Income
for FY 2016
(S$ million)
2.5

Occupancy Rate
(%)
86.9

Land Lease Expiry
2056
30 + 30 yrs wef
16 Dec 1996

GFA
(sq ft)
181,705

## 10 CHANGI SOUTH STREET 2
**Singapore 486596**

A part single/part six-storey warehouse building with ancillary offices

Purchase Consideration
(S$ million)
54.2*

Latest Valuation
(As at 31 December 2016)
(S$ million)
52.1

Gross Rental Income
for FY 2016
(S$ million)
4.1

Occupancy Rate
(%)
100.0

Land Lease Expiry
2051
30 + 27 yrs wef
1 Oct 1994

GFA
(sq ft)
189,609

* Includes land premium of approximately S$3.8 million paid to JTC.

# Property Portfolio

## 123 GENTING LANE
**Yenom Industrial Building,
Singapore 349574**

An eight-storey industrial building with ancillary offices

Purchase Consideration
(S$ million)
24.5

Latest Valuation
(As at 31 December 2016)
(S$ million)
18.2

Gross Rental Income
for FY 2016
(S$ million)
2.0

Occupancy Rate
(%)
78.7

Land Lease Expiry
2041
60 yrs wef 1 Sept 1981

GFA
(sq ft)
158,907

## 30 & 32 TUAS AVENUE 8
**Singapore 639246/639247**

Comprising two original "E8" JTC standard factories with an adjoining four-storey factory with ancillary offices

Purchase Consideration
(S$ million)
24.0

Latest Valuation
(As at 31 December 2016)
(S$ million)
29.0

Gross Rental Income
for FY 2016
(S$ million)
2.5

Occupancy Rate
(%)
100.0

Land Lease Expiry
2056
30 + 30 yrs wef
1 Sept 1996

GFA
(sq ft)
158,846

# Property Portfolio


## 39 UBI ROAD 1
**Singapore 408695**

An eight-storey industrial building with ancillary offices

Purchase Consideration
(S$ million)
32.0

Latest Valuation
(As at 31 December 2016)
(S$ million)
23.0

Gross Rental Income
for FY 2016
(S$ million)
2.3

Occupancy Rate
(%)
63.1

Land Lease Expiry
2051
30 + 30 yrs wef
1 Jan 1992

GFA
(sq ft)
135,513

## 21 JOO KOON CRESCENT
**Singapore 629026**

A three-storey industrial building with ancillary offices

Purchase Consideration
(S$ million)
20.3

Latest Valuation
(As at 31 December 2016)
(S$ million)
19.0

Gross Rental Income
for FY 2016
(S$ million)
1.4

Occupancy Rate
(%)
100.0

Land Lease Expiry
2054
30 + 30 yrs wef
16 Feb 1994

GFA
(sq ft)
99,575

# Property Portfolio

## 6 WOODLANDS LOOP
**Singapore 738346**

A three-storey industrial building with ancillary office and mezzanine extension

Purchase Consideration
(S$ million)

14.8

Latest Valuation
(As at 31 December 2016)
(S$ million)

14.1

Gross Rental Income
for FY 2016
(S$ million)

1.3

Occupancy Rate
(%)

100.0

Land Lease Expiry

2054
30 + 30 yrs wef
16 Sept 1994

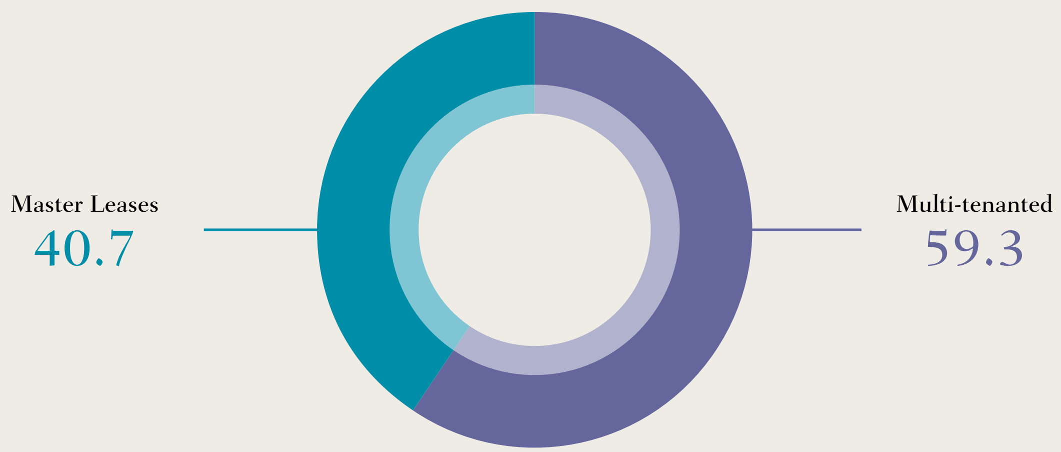
GFA
(sq ft)

77,544

# Operations Review

For the financial year ended 31 December 2016, Sabana REIT held a portfolio of 21 industrial properties in Singapore with a total net lettable area ("NLA") of 3,605,294 sq ft. Master-tenanted and multi-tenanted properties accounted for 40.7% and 59.3% of the portfolio's NLA respectively.

**LEASE TYPE BY NLA (%)**
(As at 31 December 2016)




During the financial year under review, Sabana REIT saw the expiry of four master-tenanted properties, of which three were Sponsor-related properties (33 & 35 Penjuru Lane, 18 Gul Drive and 51 Penjuru Road). The three Sponsor-related properties were renewed for a one-year term each, following the exercise of option to renew under the terms of the respective master leases. In entering into the master leases, the Manager had negotiated with the Sponsor at arm's length and ensured that the rental rates were comparable to and in line with the then prevailing market. The remaining property, 39 Ubi Road 1, was converted to a multi-tenanted building.

On 5 December 2016, we announced the proposed divestment of 218 Pandan Loop to X Properties Inc Pte Ltd. for a sale consideration of S$14.8 million. The sale price is above the purchase consideration of S$13.5 million and above the $13 million desktop valuation performed in mid-2016. The divestment is also in line with the Manager's strategy to divest non-core and under-performing assets to recycle Sabana REIT's capital into higher yielding assets, so as to optimise portfolio returns for Unitholders.

In FY 2016, we achieved across the portfolio a total of 63[1] lease transactions (renewals and new leases). As at 31 December 2016, the portfolio's occupancy was 87.2%, with 10 master-tenanted properties fully occupied and 10 multi-tenanted properties with occupancy rate of 80.1%. The weighted average lease term to expiry ("WALE") for the new leases (including renewals), by gross rental income, was 21.1 months. These new leases contributed to 7.9% of the year's gross rental income. The WALE for the sub-tenancies and master tenancies by gross rental income as at 31 December 2016 were 31.4 months and 2.9 years respectively.

[1] Excluding 200 Pandan Loop which was divested on 14 March 2016.

# Operations Review

## PROPOSED ACQUISITIONS IN FY 2016

We announced the proposed acquisitions of 72 Eunos Avenue 7 ("Eunos Ave 7 Property"), 107 Eunos Avenue 3 ("Eunos Avenue 3 Property") and 47 Changi South Avenue 2 ("Changi South Property") on 8 December 2016, 14 December 2016 and 15 December 2016 respectively. The proposed acquisition of the Changi South Property is subject to Unitholders' approval.

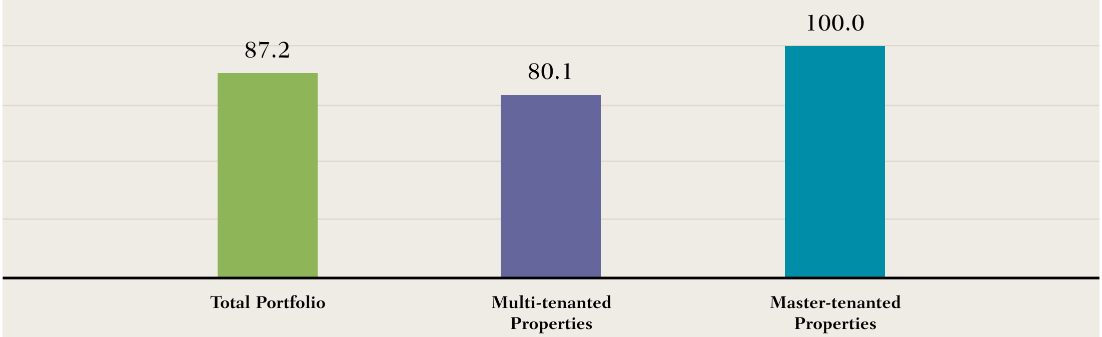
The Eunos Avenue 7 Property was independently valued by Knight Frank Pte Ltd at S$20.0 million, using the capitalisation approach and the discounted cash flow analysis and the REIT will pay the same purchase consideration to the vendor Singapore Handicrafts Pte Ltd. The Eunos Avenue 3 Property was independently valued at S$34.5 million by Savills Valuation And Professional Services (S) Pte Ltd, using the income capitalisation method, the discounted cash flow analysis and direct comparison method. The REIT will pay the same purchase consideration to the vendor General Cars Fleet Management Pte Ltd. The Changi South Property was independently valued by Savills Valuation And Professional Services (S) Pte Ltd at S$23.0 million using the direct comparison, income capitalisation and the discounted cash flow analysis and by Knight Frank Pte Ltd at S$23.0 million using the capitalisation approach and the discounted cash flow analysis. The REIT will pay the same purchase consideration to the vendor Freight Links Properties Pte Ltd.

The Eunos Avenue 7 and Eunos Avenue 3 properties are located within the Eunos Industrial Estate and are accessible via the Pan Island Expressway. They are in close proximity to both Paya Lebar MRT station and Eunos MRT station on the East-West Line.

The Changi South Property is located within the Changi South Industrial Estate and is accessible via the East Coast Parkway Expressway, Pan Island Expressway and Tampines Expressway. This property is well served by public transport, and in close proximity to the Expo MRT station on the East-West Line and will also be serving the Downtown Line upon the completion of Phase 3 of the Downtown Line, expected in 2017[1].

As at 31 December 2016, the value of the Trust's portfolio of 21 properties was approximately S$1.0 billion.

**OCCUPANCY LEVELS BY TENANCY TYPES (%)**
(As at 31 December 2016)



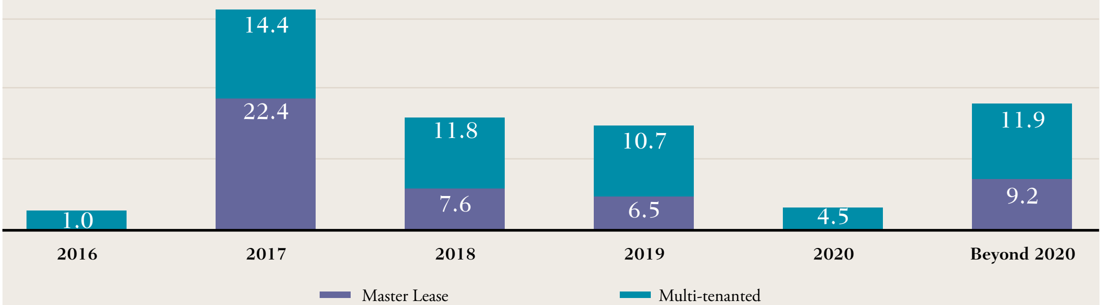

[1] Source: https://www.lta.gov.sg/content/ltaweb/en/public-transport/projects/downtown-line/overview.html. Land Transport Authority. 31 January 2017.

# Operations Review

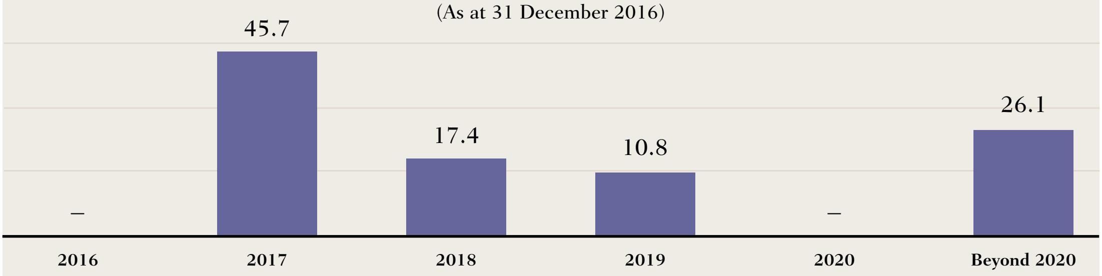
## LEASE MANAGEMENT FOR FY 2017

Five master leases[2] are expected to expire in 2017. Three of these are Sponsor-related properties[3]. We are currently working with the respective master tenants to renew the leases.

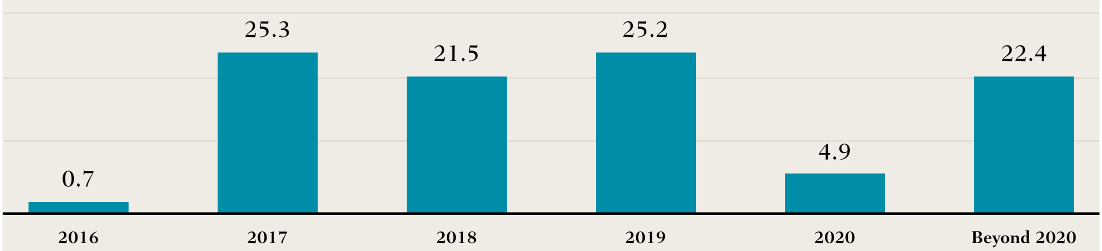
LEASE EXPIRY BY NLA (%)
(As at 31 December 2016)




MASTER LEASE EXPIRY BY GROSS RENTAL INCOME (%)
(As at 31 December 2016)




MULTI-TENANTED LEASE EXPIRY BY GROSS RENTAL INCOME (%)
(As at 31 December 2016)




[2] 33 & 35 Penjuru Lane, 18 Gul Drive, 51 Penjuru Road, 21 Joo Koon Crescent and 6 Woodlands Loop.
[3] 33 & 35 Penjuru Lane, 18 Gul Drive and 51 Penjuru Road.

# Operations Review

## INDEPENDENT ASSET VALUATION COMPARISONS

| | Valuation as at 31 December 2016 (S$'000) | Valuation as at 31 December 2015 (S$'000) |
|---|---|---|
| HIGH-TECH INDUSTRIAL | | |
| 151 Lorong Chuan | 316,000 | 339,500 |
| 8 Commonwealth Lane | 57,000 | 67,500 |
| 9 Tai Seng Drive | 41,000 | 45,300 |
| 15 Jalan Kilang Barat | 23,000 | 24,000 |
| 1 Tuas Avenue 4 | 32,400 | 32,200 |
| 23 Serangoon North Avenue 5 | 41,000 | 48,100 |
| 508 Chai Chee Lane | 56,800 | 60,900 |
| CHEMICAL WAREHOUSE & LOGISTICS | | |
| 33 & 35 Penjuru Lane | 60,000 | 66,400 |
| 18 Gul Drive | 24,500 | 27,300 |
| WAREHOUSE & LOGISTICS | | |
| 34 Penjuru Lane | 40,700 | 46,400 |
| 51 Penjuru Road | 46,800 | 47,800 |
| 26 Loyang Drive | 24,700 | 28,100 |
| 218 Pandan Loop[1] | 13,000 | 13,600 |
| 3A Joo Koon Circle | 39,000 | 41,000 |
| 2 Toh Tuck Link | 32,300 | 35,100 |
| 10 Changi South Street 2 | 52,100 | 52,800 |
| GENERAL INDUSTRIAL | | |
| 123 Genting Lane | 18,200 | 18,700 |
| 30 & 32 Tuas Avenue 8 | 29,000 | 29,300 |
| 39 Ubi Road 1 | 23,000 | 33,200 |
| 21 Joo Koon Crescent | 19,000 | 18,700 |
| 6 Woodlands Loop | 14,100 | 14,300 |
| TOTAL | 1,003,600[2] | 1,090,200 |

[1] As at 31 December 2016, the property has been reclassified to investment property held for divestment, in accordance with FRS 105.
[2] The diminution in the value of the portfolio is reflective of the market conditions as at the date of valuation.

# Operations Review

## TOP TEN TENANTS

Vibrant Group Limited, Sabana REIT's sponsor, remains our largest tenant, contributing 12.7% of our total gross rental income for FY 2016. In total, the top ten tenants accounted for approximately 46.6% of Sabana REIT's total gross rental income during the financial year under review. The tenant mix of Sabana REIT's portfolio continues to remain diversified. As at 31 December 2016, there are a total of 114 sub-tenants in the portfolio. Tenant concentration risk is low as these tenants comprise of small medium-sized enterprises and multinational companies, are spread across different trades and industries.

## TOP TEN TENANTS BY GROSS RENTAL INCOME FOR FY 2016

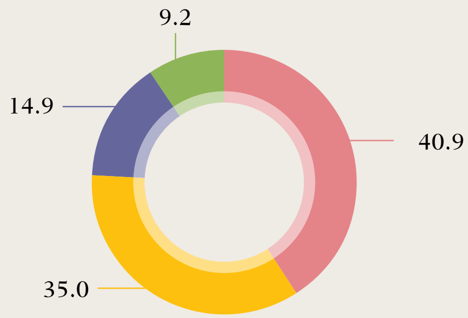
| No. | Tenant | Property | Percentage of Gross Rental Income (%) |
|---|---|---|---|
| 1 | Subsidiaries of Vibrant Group Limited | 33 & 35 Penjuru Lane, Freight Links Express Logisticpark, Singapore 609200/609202<br>18 Gul Drive, Singapore 629468<br>51 Penjuru Road, Freight Links Express Logisticentre, Singapore 609143 | 12.7 |
| 2 | Advanced Micro Devices (Singapore) Pte Ltd | 508 Chai Chee Lane, Singapore 469032 | 5.5 |
| 3 | Adviva Distribution Pte. Ltd. | 10 Changi South Street 2, Singapore 486596 | 5.2 |
| 4 | Wincor Nixdorf Pte Ltd | 151 Lorong Chuan, New Tech Park, Singapore 556741 | 4.7 |
| 5 | Avnet Asia Pte Ltd | 26 Loyang Drive, Singapore 508970<br>151 Lorong Chuan, New Tech Park, Singapore 556741 | 4.4 |
| 6 | ST Synthesis Pte Ltd | 3A Joo Koon Circle, Singapore 629033 | 3.8 |
| 7 | ASM Advanced Packaging Materials Pte. Ltd. | 30 & 32 Tuas Avenue 8, Singapore 639246/639247 | 3.1 |
| 8 | Ascend Group Pte. Ltd. | 39 Ubi Road 1, Singapore 408695 | 2.8 |
| 9 | Cotton On Singapore Pte. Ltd. | 34 Penjuru Lane, Penjuru Logistics Hub Singapore 609201 | 2.6 |
| 10 | Epsilon Telecommunications (SP) Pte. Ltd. | 151 Lorong Chuan, New Tech Park, Singapore 556741 | 1.8 |

# Operations Review

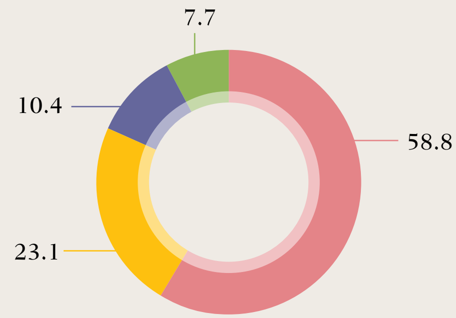
## DIVERSITY IN PROPERTY SEGMENTS, TRADE SECTORS AND LOCATIONS

Sabana REIT's well-diversified portfolio is spread across four asset types: High-tech Industrial, Chemical Warehouse and Logistics, Warehouse and Logistics and General Industrial. The High-tech Industrial segment remained the largest in the Trust's portfolio, accounting for 40.9% of total NLA and generated 58.8% of Sabana REIT's gross revenue as at 31 December 2016. This was followed by Warehouse and Logistics, General Industrial and lastly, Chemical Warehouse and Logistics.

**ASSET BREAKDOWN BY NLA (%)**
(As at 31 December 2016)



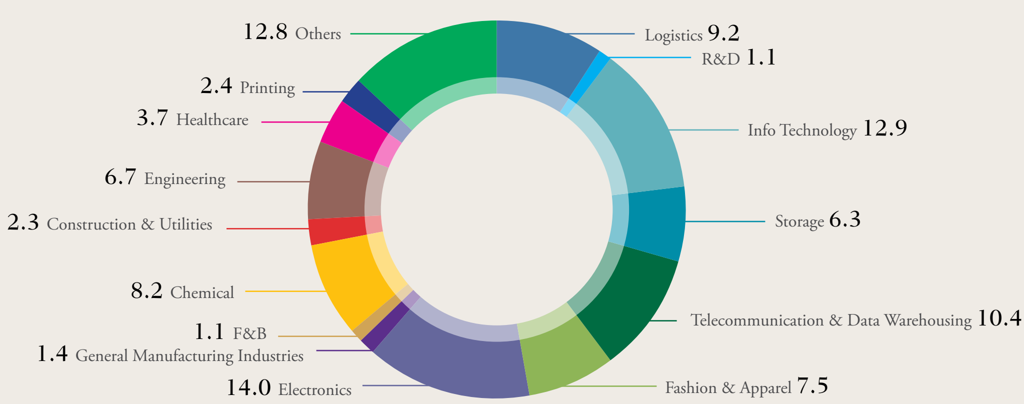

**GROSS REVENUE BY ASSET TYPES (%)**
(As at 31 December 2016)




High-tech Industrial | Chemical Warehouse & Logistics | Warehouse & Logistics | General Industrial

The tenants in Sabana REIT's portfolio come from many trade sectors and industries. As at 31 December 2016, the largest sector was the Electronics segment at 14.0%, followed by Information Technology at 12.9%.

**SUB-TENANTS' INDUSTRY DIVERSIFICATION BY NLA (%)**
(AS AT 31 DECEMBER 2016)[4]

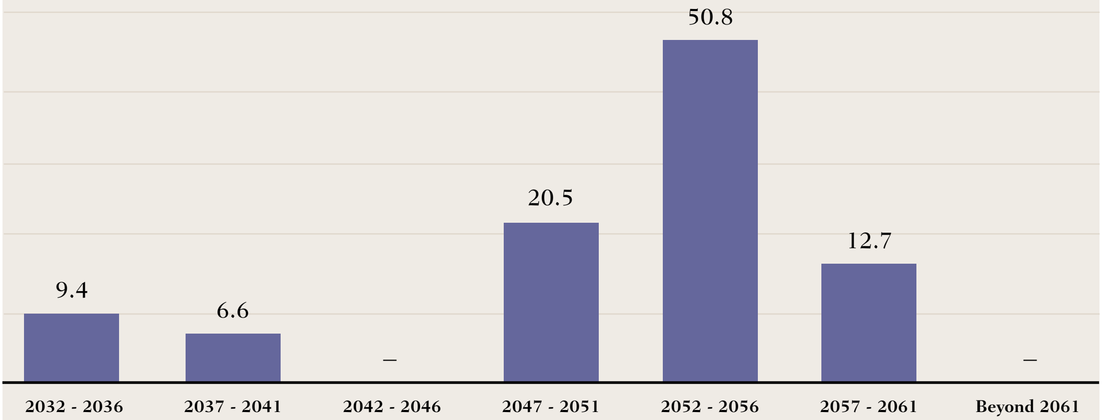



[4] Refers to sub-tenants and direct tenants.

# Operations Review

Sabana REIT's properties are conveniently situated near major transport routes and are easily accessible by public transport (see page 43 for property locations). They sit on well-distributed relatively long underlying land leases, with weighted average lease expiry of 34.6 years by GFA.

**PERCENTAGE OF UNEXPIRED LAND LEASE TERM BY GFA (%)**
(As at 31 December 2016)[5]




## LOOKING AHEAD

Despite the subdued outlook for the global economy and the Singapore industrial property market, the Manager will continue to stay proactive in managing the lease expiry profile and maintain rigorous marketing and leasing efforts to increase the Trust's portfolio occupancy. As for the expiry of five master leases in FY 2017, we are currently working with the respective master tenants to renew the leases. The Sponsor remains supportive and intends to renew the three master leases at the Sabana REIT properties it currently occupies at prevailing market rents in line with those of similar properties in similar locations.

In addition, the Manager remains very focused on actively managing the Trust's cost and is committed to enhancing the Trust's portfolio to generate stable income streams and deliver reasonable returns to the Unitholders. We will also adopt a cautious approach when evaluating appropriate acquisition opportunities, always placing Unitholders' interests as the highest priority.

[5] Weighted by GFA.

# Board of Directors

## MR STEVEN LIM KOK HOONG

*Chairman and Independent Non-executive Director*

Mr Lim was appointed as the Chairman and Independent Non-executive Director of the Manager on 1 November 2010 and was last re-elected on 23 September 2016. He is a member of the Audit Committee and the Nominating and Remuneration Committee.

In addition to his appointment at the Manager, Mr Lim sits as an independent director on the boards of several publicly listed companies in Singapore.

For over 30 years in his public accountancy career, Mr Lim held top positions in a number of well-known accounting firms. For example, at Ernst & Young in Singapore, he served as Audit Partner for various clients and assisted in managing the firm. He also worked for 12 years as the Managing Partner at Arthur Andersen.

Mr Lim holds a Bachelor of Commerce degree from the University of Western Australia. He is a member of the Institute of Chartered Accountants in Australia and the Institute of Singapore Chartered Accountants.

***Present Directorships***

- B2C Network Pte Ltd
- Genting Singapore PLC
- Global Logistic Properties Limited
- Grande Rue Investment Pte Ltd
- Parkway Trust Management Limited (Chairman)
- Marchwood Laboratory Services Pte Ltd
- Sabana Real Estate Investment Management Pte. Ltd. (Chairman)
- Visionary Investment Holdings Pte Ltd
- YSL Starville Investment Holdings Pte Ltd

## MR YONG KOK HOON

*Independent Non-executive Director*

Mr Yong was appointed as an Independent Non-executive Director of the Manager on 1 November 2010 and was last re-elected on 23 September 2016. He is also the Chairman of the Audit Committee and the Nominating and Remuneration Committee.

Mr Yong was the Managing Director of InnoTek Limited, a technology focused group of companies listed on the main board of the SGX-ST. He was also the Chairman and CEO of Mansfield Manufacturing Co, Limited, a Hong Kong-incorporated precision engineering group with manufacturing facilities in Donguan, Suzhou, Dalian and Wuhan, in the People's Republic of China and operations in Netherlands and Czech Republic in Europe. He retired from his active roles in May 2014.

Mr Yong is a Chartered Accountant (Singapore) and a Fellow of the Association of Chartered Certified Accountants (UK). He started his accounting and auditing career with KPMG LLP and subsequently spent more than 10 years in Ernst & Young until 1994; and thereafter, as Partner in Moore Stephens, an international accounting firm. In his foray into the corporate world, Mr Yong took on the position of Group Financial Controller at QAF Ltd, a SGX-ST main board listed FMCG group between 1996 and 1999. Since 1999, Mr Yong had been with InnoTek Limited, and held key leadership roles which span over 15 years, serving initially as Chief Financial Officer ("CFO"), Executive Director and subsequently as Managing Director.

With a robust background in accounting, auditing, finance and, advisory services, Mr Yong played pivotal roles in M&A transactions, strategic

# Board of Directors

investments and corporate functions in InnoTek Limited to unlock shareholder value. He was also the key driver for its strategic direction, operational excellence, corporate governance compliance and risk management. Under his leadership, InnoTek Limited won the investor choice, "Best Corporate Governance award (small cap, <S$300 million)" for two consecutive years in 2012 and 2013.

Mr Yong also served as a member of the financial statements review committee and was a member of the China Committee of the Institute of Singapore Chartered Accountants. He holds a Master of Business Administration from the International Management Centre, Europe.

***Present Directorship***

- Sabana Real Estate Investment Management Pte. Ltd.

## MR KEVIN XAYARAJ

*Co-founder, Chief Executive Officer and Executive Director*

Mr Xayaraj is the Co-founder, CEO and Executive Director of the Manager since 15 March 2010 and was last re-elected on 31 August 2015. He has more than 25 years of experience in real estate investment, development and asset management in many property markets.

Before joining the Manager, Mr Xayaraj was the Director, Real Estate Investments of AACP from October 2009 to August 2010. From January 2009 to August 2009, Mr Xayaraj worked as Senior Manager, Marketing at Cambridge Industrial Property Management Pte. Ltd.

Mr Xayaraj was with Cambridge Industrial Trust Management Limited from December 2005 to December 2008 as Assistant Vice President (Investment). From January 2004 to December 2005, he was involved in the business development and asset management at Ascendas Land (Singapore) Pte Ltd.

Mr Xayaraj was Vice President, Research and Finance at Pacific Star Asset Management Pte. Ltd. from January 2003 to December 2003 and was Assistant Manager, Project & Financial Analysis at Pacific Star Property Management Pte Ltd from July 2002 to December 2002. Mr Xayaraj also held other positions such as Senior Manager (Research) with Jones Lang LaSalle Property Consultants Pte Ltd from January 2002 to April 2002, Equities Research Analyst with OUB Securities Pte Ltd from July 1999 to March 2001, UOB Investment Research Pte Ltd from December 1997 to July 1999 and Tsang & Ong Research (Pte) Ltd from January 1997 to December 1997, and Property Analyst/Valuer at Stewart, Young, Hillesheim & Atlin Ltd in Toronto (Canada) from February 1988 to December 1994.

Mr Xayaraj is a recipient of Asia Pacific Entrepreneurship Award 2015 Singapore under "Most Promising" category, presented by Enterprise Asia.

Mr Xayaraj holds a Bachelor of Applied Science (Honours) degree from the University of Windsor and a Master of Business Administration from the Imperial College, University of London.

***Present Directorships***

- Blackwood Investment Pte. Ltd.
- Sabana Investment Partners Pte. Ltd.
- Sabana Property Management Pte. Ltd.
- Sabana Real Estate Investment Management Pte. Ltd.

# Board of Directors

## MR HENRY CHUA TIONG HOCK

*Non-executive Director*

Mr Chua was appointed as Non-executive Director of the Manager on 1 November 2010 and was last re-elected on 18 July 2014. He is a member of the Nominating and Remuneration Committee.

For more than 20 years, Mr Chua has worked at Vibrant Group Limited, the Sponsor of Sabana REIT. Vibrant Group Limited is a leading logistics, real estate and financial services group. He has served in numerous roles in management and operations at Vibrant Group over the years. Mr Chua is currently Executive Director and Chief Corporate Development Officer of Vibrant Group Limited and is responsible for corporate development, investment and properties within the Group. He is concurrently a non-executive director of Freight Management Holdings Berhad, an associate company of Vibrant Group Limited, which is listed on Bursa Malaysia. Mr Chua also holds the position of Executive Director in a number of other subsidiaries in Vibrant Group located in Singapore and overseas.

Mr Chua holds a Bachelor of Arts from the University of Singapore, a Diploma in Personnel Management from the Singapore Institute of Management and Singapore Institute of Personnel Management and a Diploma in Business Administration from the National University of Singapore.

***Present Directorships***

- Busan Cross Dock Co., Ltd
- Chemode Global Pte Ltd
- Crystal Freight Services Distripark Pte Ltd
- Crystal Freight Services Pte Ltd
- Crystal Shipping Line (H.K) Limited
- Far East Continental Shipping Line Limited
- FLE Shipping Line Pte Ltd
- Flex Integrated Marketing Pte Ltd
- Freight Link M & S (H.K) Limited
- Freight Links Express (M) Sdn Bhd
- Freight Links Express (Penang) Sdn Bhd
- Freight Links Express (Thailand) Co., Ltd
- Freight Links Express Air Systems Pte Ltd
- Freight Links Express Airfreight Pte Ltd
- Freight Links Express Archivers Pte Ltd
- Freight Links Express Districentre Pte Ltd
- Freight Links Express Distrihub Pte Ltd
- Freight Links Express Distripark Pte Ltd
- Freight Links E-Logistics Technopark Pte Ltd
- Freight Links Express International Ltd
- Freight Links Express Logisticentre Pte Ltd
- Freight Links Express Logisticpark Pte Ltd
- Freight Links Express Pte Ltd
- Freight Links Fabpark Pte. Ltd.
- Freight Links Logistics Pte. Ltd.
- Freight Links Properties Pte. Ltd.
- Freight Management Holdings Berhad
- Fudao Petrochemicals Group Pte. Ltd.
- Harbour Investors, Inc
- Lee Thong Hung Trading & Transport Sdn Bhd
- LTH Distripark Pte Ltd
- LTH Logistics (Malaysia) Sdn Bhd
- LTH Logistics (Singapore) Pte Ltd
- Piow Hong Pte Ltd
- Sabana Real Estate Investment Management Pte. Ltd.
- Sabana Property Management Pte. Ltd.
- Sabana Investment Partners Pte. Ltd.
- Singapore Enterprises Private Limited
- Sinmachem Sdn Bhd
- Vibrant Group Limited

* The above are private subsidiaries of SGX-listed Vibrant Group Limited.

# Board of Directors

## MS NG SHIN EIN[1]

*Non-executive Director*

Ms Ng Shin Ein was appointed as Non-executive Director of the Manager on 1 November 2010 and was re-elected on 31 August 2015. She is a member of the Audit Committee.

Ms Ng Shin Ein is the Managing Partner of Gryphus Capital, an investment firm. Ms Ng leads a global network of family offices and strategic investors in private equity investments. She is actively engaged in strategic and business development of portfolio companies.

Prior to this, Ms Ng spent a number of years at the Singapore Exchange, where she was responsible for developing Singapore's capital market and bringing foreign companies to list in Singapore. Additionally, she was part of the Singapore Exchange's IPO Approval Committee, where she contributed industry perspectives and also acted as a conduit between the marketplace and regulators.

Admitted as an advocate and solicitor of the Singapore Supreme Court, Ms Ng started her career as a corporate lawyer in Messrs Lee & Lee. Whilst at Lee & Lee, she advised clients on joint ventures, mergers & acquisitions and fund raising exercises.

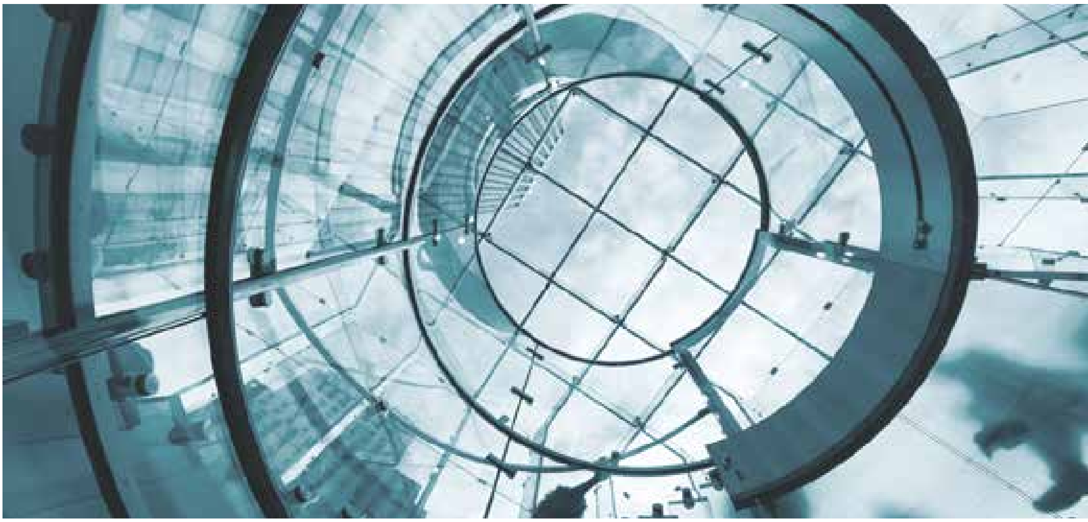
Ms Ng is on the Board of NTUC Fairprice. Additionally, she serves on the boards of Yanlord Land Ltd, First Resources Ltd and UPP Holdings, companies listed on the Mainboard of Singapore Exchange. Ms Ng was also an adjunct research fellow at the National University of Singapore, where she focused on her area of interest, social enterprise and corporate philanthropy.

***Present Directorships***

- Blue Ocean Associates Pte. Ltd.
- First Resources Limited
- NTUC Fairprice Co-operative Ltd.
- Sabana Real Estate Investment Management Pte. Ltd.
- UPP Holdings Ltd
- Working Capital Partners, Ltd
- Yanlord Land Group Limited

[1] Announcement on Ms Ng's resignation was made on 27 February 2017.

# Management Team



## 1. MR KEVIN XAYARAJ

*Co-founder, CEO and Executive Director*

Please refer to the description under the section on “Board of Directors”, page 64)

## 2. MR BOBBY TAY CHIEW SHENG

*Co-founder, Chief Strategy Officer and Head of Investor Relations*

Mr Tay has been serving as the Chief Strategy Officer and Head of Investor Relations of the Manager since the listing of Sabana REIT in November 2010.

Prior to joining the Manager, Mr Tay was Director, Business Development at AACP. He worked with Cambridge Industrial Trust Management Limited as the manager of the investor relations department from August 2007 to September 2009. Mr Tay was Manager of Investor Relations at Aztech Group Ltd from April 2007 to August 2007 and Manager of Magnecomp International Limited from April 2004 to April 2007, where he handled media, investor and analyst relations for the company. In all, Mr Tay has more than a decade of experience in the field of investor relations. Before his foray into the investor relations field, Mr Tay worked as an operations executive for the People’s Action Party at its headquarters from January 2000 to April 2004.

Mr Tay serves as President of Gulf Asia Shari’ah Compliant Investment Association, a non-profit organisation he founded with a group of Islamic Finance professionals. This organisation seeks to promote awareness and understanding of Islamic Finance and to forge stronger synergies between the Gulf and Asia on Islamic Finance.

Mr Tay holds a Bachelor of Commerce degree in Management from the University of Western Sydney and a Master of Business Systems degree from Monash University.

# Management Team

### 3. MR AW WEI BEEN

*Chief Operating Officer and Head of Asset Management*

Mr Aw was appointed as the Chief Operating Officer and Head of Asset Management of the Manager since the listing of Sabana REIT in November 2010. He has worked in the real estate industry for approximately 21 years.

Prior to joining the Manager in 2010, Mr Aw was Head of Asset Management at AACP. This was preceded by his role at the Agency for Science, Technology and Research ("A*STAR"), where he served as Head, Infrastructure Planning and Facilities Management. At A*STAR, Mr Aw was responsible for the development planning of a business park cum high-specification scientific facility.

From 2007 to 2009, Mr Aw served as a Senior Manager for Investment at Cambridge Industrial Trust Management Limited. From 2005 to 2007, Mr Aw was with Jurong Consultants Pte Ltd, a wholly-owned subsidiary of JTC Corporation, where he was the principal planner in the planning department. The role saw him leading and co-leading consultancy projects out of Singapore, in master planning of industrial parks and related areas.

Mr Aw began his career in 1995 with JTC, a statutory board that controls the development and marketing of major industrial estates in Singapore. There, he built up his experience in lease management, land and building development and the marketing of industrial facilities. Mr Aw was at JTC from May 1995 until February 2005 and held the position of Manager before he left the company.

Mr Aw graduated with a Bachelor of Science (Honours) degree in Estate Management from the National University of Singapore and holds a Master of Science in Real Estate from the National University of Singapore.

### 4. MS TAN CHIEW KIAN

*Chief Financial Officer*

Ms Tan joined the Manager as CFO in April 2011. She works closely with the CEO and the management team to formulate strategic plans for Sabana REIT. Prior to joining the Manager, Ms Tan held key accounting and finance positions in a number of listed companies.

From February 2008 to March 2011, Ms Tan was the Chief Financial Officer of Singapore Medical Group Limited, where she was responsible for the Group's finance, tax, treasury, audit, investments and other matters that relate to the Group's listing on SGX-ST. From 2006 to 2008, she was Chief Financial Officer of Toll Logistics (Asia) Ltd (formerly known as Sembawang Kimtrans Ltd), Southeast Asia's leading integrated logistics service provider, where she held a similar portfolio. Ms Tan started her accounting career at JTC as Accountant and took on the role as Finance Manager for CapitaLand Commercial Limited from 2001 to 2005.

Ms Tan holds a Master of Business Administration (Accountancy) from Nanyang Technological University and a CIMA Diploma in Islamic Finance. She is a Chartered Accountant and Accredited Tax Practitioner (Income Tax) of Singapore, and member of the Institute of Singapore Chartered Accountants and Singapore Institute of Accredited Tax Professionals Limited.

# Corporate Social Responsibility

## CREATING
## VALUE IN OUR COMMUNITY

Sabana REIT is a responsible corporate citizen. Community engagement continues to be one of its core values. We remain committed to engaging the community through various corporate social responsibility activities. Our community efforts involving the voluntary contribution of time, efforts and resources by our staff align with our value system which encompasses reaching out to the less fortunate in our society.

During the year under review, Sabana REIT continued to help numerous charitable organisations and causes with its non-Shari'ah income. In 2016, Sabana REIT allocated a total of S$111,915 to the following beneficiaries:

### (A) SABANA REIT'S NON-SHARI'AH INCOME BENEFICIARIES

**1Q 2016**

***Organisation: Lien Aid***
Sabana REIT's contributed its non-Shari'ah income for this quarter amounting to S$43,221 to Lien Aid, a non-profit organisation that seeks to make clean water and proper sanitation more accessible and affordable for poor rural communities in Asia. The amount was utilised to set up a centralised water supply system which provides clean water to residents in about 380 households in the Hunan province. It was also utilised to support Lien Aid's health and hygiene awareness campaigns held in that community.

# Corporate Social Responsibility

**2Q 2016**

***Organisation: Operation Hope Foundation***
Sabana REIT's non-Shari'ah income of S$15,384 in this quarter was used to fund two on-going projects by Operation Hope Foundation. The first project was their Nepal Earthquake Rebuilding Project which involved the building of rice bag houses for the villagers in the Dhading District, Nepal. The second project was a sponsorship programme, providing bursaries for youth training at their skills training centres in Cambodia. This programme helped rural youths to acquire the necessary skills to find employment.

**3Q 2016**

***Organisation: Mendaki SENSE***
Sabana REIT contributed non-Shari'ah income amounting to S$22,728 in this quarter to Mendaki SENSE, the training arm of Yayasan MENDAKI. The amount would be used for their "Back-to-Work" women programme called "EmpoWOMENt". This programme was set up to educate and help equip the under-privileged women with the necessary skills to return to the work force.

**4Q 2016**

***Organisation: Singapore Kadayanallur Muslim League***
Sabana REIT's non-Shari'ah income of S$30,582 in this quarter was allocated to the Singapore Kadayanallur Muslim League. The amount was utilised to provide relief aid to the victims of Cyclone Vardah which caused much damage in many districts in Chennai on 12 December 2016.

## (B) COMMUNITY SERVICE

During the financial year, the Manager's management team and staff participated in community projects that could make a difference to people from all walks of life in the community.

### GIVE BLOOD, SAVE LIVES

Following on the positive responses from our blood donation drives in the past few years, we have decided to reprise the project in October 2016. Close to 100 people signed up to participate in the blood donation drive and almost 75 successful blood donations were received. Our employees contributed significant efforts in areas such as providing administrative and logistics support for the event.

# Corporate Governance Report

## INTRODUCTION

The Manager's main responsibility is to manage the assets and liabilities of the Trust for the benefit of its Unitholders. The Manager sets the strategic direction of the Trust and gives recommendations to HSBC Institutional Trust Services (Singapore) Limited, as trustee of the Trust (the "Trustee"), on the acquisition, divestment and enhancement of the assets of the Trust in accordance with its stated investment strategy. The Manager is also responsible for the risk management of the Trust.

The Manager was appointed in accordance with the terms of the trust deed entered into between the Manager and the Trustee constituting Sabana REIT dated 29 October 2010 (as amended, varied or supplemented from time to time), (collectively the "Trust Deed"). The Trust Deed also outlines certain circumstances under which the Manager can be removed, including by notice given in writing by the Trustee upon the occurrence of certain events, or by a simple majority of Unitholders present and voting at a meeting of Unitholders duly convened and held in accordance with the provisions of the Trust Deed.

The Manager and its officers are licensed under the Securities and Futures Act, Chapter 289 ("SFA") to carry out REIT management activities with effect from 2 November 2010. It holds a Capital Markets Services ("CMS") Licence issued by the Monetary Authority of Singapore ("MAS").

The Manager is committed to upholding high standards of corporate governance, which are essential to sustaining the Trust's business and performance. This report describes the Manager's corporate governance framework and practices in compliance with the principles and guidelines of the Code of Corporate Governance 2012 (the "2012 Code"). The Manager confirms that it has adhered to the principles and guidelines as set out in the 2012 Code where applicable. Any deviations from the 2012 Code are explained.

## BOARD MATTERS

### THE BOARD'S CONDUCT OF AFFAIRS

***Principle 1: Every company should be headed by an effective Board to lead and control the company. The Board is collectively responsible for the long-term success of the company. The Board works with Management to achieve this objective and Management remains accountable to the Board.***

The Board provides entrepreneurial leadership, sets the strategic direction and ensures that the necessary resources are in place for the Manager to meet its objectives. It also sets the values and standards for the Manager and the Trust, to ensure that obligations to its stakeholders are understood and met, with the ultimate aim of safeguarding and enhancing Unitholder's value.

# Corporate Governance Report

As at 31 December 2016, the Board members are:

Independent Directors
Mr Steven Lim Kok Hoong (Chairman)
Mr Yong Kok Hoon

Non-executive Directors
Mr Henry Chua Tiong Hock
Ms Ng Shin Ein

Executive Director
Mr Kevin Xayaraj (CEO)

The profiles of the Directors (which contain key information of the Directors that the Manager considers to be relevant to Unitholders for the purposes of Guideline 4.7 of the 2012 Code) are set out on pages 63 to 66 of this Annual Report.

The Board provides oversight and assumes overall responsibility for the corporate governance of the Manager, including establishing goals for management and monitoring the achievement of these goals. The Board has established an oversight framework for the Manager and the Trust, including a system of internal controls which enables risks to be assessed and managed.

In order for the Board to efficiently provide oversight, it delegates specific areas of responsibilities to its Board Committees; namely, the Nominating and Remuneration Committee ("NRC") and Audit Committee ("AC"). Each Board Committee is governed by its respective terms of reference which have been carefully considered and approved by the Board.

The Manager has adopted a framework of delegated authorisations in its Delegation of Authority ("DOA") approved by the Board. The DOA sets out the level of authorisation and the respective approval limits for a range of transactions, including but not limited to acquisitions, divestments, operating and capital expenditures. Transactions and matters which require the Board's approval, such as annual budgets, financial statements, funding and investment proposals, opening and closing of bank accounts, are clearly set out in the DOA.

The Board meets at least once every quarter to discuss and review the financial performance of the Trust, including any significant acquisitions and disposals, funding strategy and hedging activities, and to approve the release of the quarterly, half-yearly and full year financial results. Additional meetings are convened as and when warranted by particular circumstances requiring the Board's attention. The Constitution of the Manager provide for Directors' participation in meeting by way of telephone or video conferencing or other methods of simultaneous communication by electronic or telegraphic means.

The Manager issues formal letters upon appointment of new Directors, setting out their relevant duties and obligations, to acquaint them with their responsibilities as Directors of the Manager.

# Corporate Governance Report

Newly appointed Directors are provided with information relating to the Trust's business, strategic directions, corporate governance policies and procedures. Training may be provided for first-time Directors in areas such as accounting, legal and industry-specific knowledge where appropriate. The costs of arranging and funding the training of the Directors will be borne by the Manager.

The Directors (including newly appointed Directors) are also regularly updated on new developments in laws and regulations or changes in regulatory requirements and financial reporting standards which are relevant to or may affect the Manager or the Trust. The Manager encourages and funds its Directors to attend training courses, so as to stay abreast of changes to the financial, legal and regulatory requirements and the business environment. The Directors may also, at any time, request for further explanations, briefings, or informal discussions on new developments in laws and regulations or changes in regulatory requirements and financial reporting standards, as well as any aspect of the Trust's or the Manager's operations or business issues.

## BOARD COMPOSITION AND GUIDANCE

***Principle 2: There should be a strong and independent element on the Board, which is able to exercise objective judgement on corporate affairs independently, in particular, from Management and 10% shareholders. No individual or small group of individuals should be allowed to dominate the Board's decision making.***

The composition of the Board is determined using the following principles:

1. Chairman should be a Non-executive Director;

2. At least one-third of the Board should comprise Independent Directors; and

3. The Board should be of appropriate size and mix of experience in business, finance, law and management skills critical to the Trust's business and that each Director brings to the Board an independent and objective perspective to enable balanced and well-considered decisions to be made.

To comply with the enhanced requirements implemented by MAS, the Board is currently searching for a suitable candidate to join the Board of Directors so that at least half the Board comprises independent directors.

The Board currently consists of five Directors, two of whom are non-executive and independent, that is, they have no relationship with the Manager, its related companies, its 10% shareholders, or their officers that could interfere, or be reasonably perceived to interfere, with the exercise of the Director's independent business judgment with a view to the best interest of the Trust, and they are able to exercise objective judgment on corporate affairs independently from the management and its 10% shareholders. Furthermore, the Independent Directors are considered to be independent because they are not substantial Unitholders of the REIT, they do not have management or business relationships with the Manager and its related companies as well as the Trust and its subsidiaries and they are independent from the substantial shareholder of the Manager and substantial Unitholders of the Trust. As Non-executive Directors and Independent Directors make up more than half of the Board, no individual or group is able to dominate the Board's decision making process.

# Corporate Governance Report

The NRC reviews the size and composition of the Board on an annual basis, and considers the present Board size and composition as appropriate for the current scope and nature of the Trust's operations. The diversity of gender, skills, experience and core competencies of the members in areas such as accounting, finance, legal, property, and business development enables balanced and well-considered decisions to be made. Each Director has been appointed based on his or her experience and capability in relevant core competencies and ability to contribute to the Board. The NRC also regularly reviews its composition to ensure that the Board has the appropriate balance and diversity to maximise its effectiveness.

Based on the NRC's recommendations, the Board is satisfied that there is a strong and independent element on the Board and that the present size of the Board is appropriate to facilitate effective decision making.

As part of the regulatory requirements for CMS licence holders, prior approval of the MAS is required for any change of the CEO or of any Board member.

## CHAIRMAN AND CEO

***Principle 3: There should be a clear division of responsibilities between the leadership of the Board and the executives responsible for managing the company's business. No one individual should represent a considerable concentration of power.***

The division of responsibilities and functions between the Chairman and the CEO has been demarcated to ensure an appropriate balance of power, increased accountability and greater capacity of the Board for independent decision making. The Chairman, Mr Steven Lim Kok Hoong, and the CEO, Mr Kevin Xayaraj, are not related to each other, nor is there any business relationship between them.

The Chairman leads the Board to ensure its effectiveness by promoting a culture of openness and debate at the Board meetings on key issues pertinent to the business and operations of the Trust and the Manager. He encourages effective contribution from all Directors and facilitates constructive relations with the Board and between the Board and Management. He ensures the Directors receive complete, adequate and timely information and promotes effective communication with Unitholders on the performance of the Trust. He also spearheads the Manager's drive to achieve and maintain high standards of corporate governance.

The CEO has full executive responsibilities over the business direction and operational decisions in managing the Trust. He is responsible for the day-to-day management of the Manager and the Trust and is accountable to the Board for the execution of the Board's adopted strategies and policies.

## BOARD MEMBERSHIP AND PERFORMANCE

***Principle 4: There should be a formal and transparent process for the appointment and re-appointment of directors to the Board.***

***Principle 5: There should be a formal annual assessment of the effectiveness of the Board as a whole and its board committees and the contribution by each director to the effectiveness of the Board.***

# Corporate Governance Report

The NRC comprises the following Directors:

| | |
|---|---|
| Mr Yong Kok Hoon (Chairman) | (Independent Director) |
| Mr Steven Lim Kok Hoong | (Independent Director) |
| Mr Henry Chua Tiong Hock | (Non-executive Director) |

The NRC is guided by its written Terms of Reference which sets out its authorities and duties.

The NRC reviews and makes recommendations to the Board on all nominations for appointments and re-appointments to the Board and the Board Committees. It also leads the process for the search, identification, evaluation and selection of suitable candidates for new directorships. In doing so, where necessary or appropriate, the NRC may tap on its networking contacts and/or engage professional headhunters to assist with identifying and shortlisting candidates. Furthermore, the NRC also reviews and makes recommendation to the Board on matters relating to the professional development and succession plans for senior management and members of the Board. Although no new Directors were appointed in FY 2016, as part of the NRC's nomination process, the NRC will also take into account, among other things, the competing time commitments faced by Directors with multiple board memberships.

The Board has implemented an annual process which is carried out by the NRC for assessing the effectiveness of the Board as a whole and its Board Committees and for assessing the contribution by the Chairman and each individual Director to the effectiveness of the Board, based on performance criteria as approved by the Board. All Directors are required to assess the performance of the Board and its Committees using evaluation forms covering Board composition, Board information, Board process, internal control and risk management, Board accountability, CEO/top management and standards of conduct. The NRC also determines, among other things, the independence of Directors, whether Directors who hold multiple board representations or have other competing principal commitments are able to and have been adequately carrying out his or her duties, considering, inter alia, the Directors' attendance, contribution and participation at Board meetings, Directors' individual evaluations and the overall effectiveness of the Board. Feedback and comments received from the Directors are collated, analysed and reviewed by the NRC.

The Board ensures that the Directors give sufficient time and attention to the affairs of the Manager and the Trust. The Board is of the view that the limit on the number of listed company directorships that an individual may hold should be considered on a case-by-case basis, but as a general rule, each Director should hold no more than seven listed company board appointments. Based on the reviews by the NRC, the Board is of the view that the Board and its Committees operate effectively and each Director is contributing to the overall effectiveness of the Board. In accordance with Guideline 4.5 of the 2012 Code, no alternate directors were appointed.

The Board reviews annually whether a Director is considered an independent director based on the 2012 Code. The Board has ascertained that for the financial year under review, the Independent Directors (Mr Steven Lim Kok Hoong and Mr Yong Kok Hoon) are independent.

# Corporate Governance Report

## ACCESS TO INFORMATION

***Principle 6: In order to fulfil their responsibilities, directors should be provided with complete, adequate and timely information prior to board meetings and on an on-going basis so as to enable them to make informed decisions to discharge their duties and responsibilities.***

Management endeavours to provide the Board with complete, adequate and timely information prior to board meetings and on an on-going basis to enable the Board to make informed decisions to discharge its duties and responsibilities. Directors are entitled to request for information from Management and Management seeks to provide the same in a timely manner.

Board meetings for each year are scheduled in advance to facilitate Directors' individual arrangements in respect of on-going commitments. Prior to each meeting, Board papers on matters to be discussed with detailed explanatory information and other relevant materials are circulated in advance so that such matters may be considered thoroughly and fully, prior to the making of any decision. Explanatory information may also be in the form of briefings to the Directors or formal presentations by staff in attendance at Board meetings or by external professionals.

The number of Board meetings and Board committees meetings held during the year from 1 January 2016 to 31 December 2016 and Directors' attendances are as follows:

**Attendance of the Directors for FY 2016**

| | Board Meetings | | AC Meetings | | NRC Meetings | |
|---|---|---|---|---|---|---|
| | No. of Meetings | Attendance | No. of Meetings | Attendance | No. of Meetings | Attendance |
| Mr Steven Lim Kok Hoong | 4 | 4 | 4 | 4 | 1 | 1 |
| Mr Yong Kok Hoon | 4 | 4 | 4 | 4 | 1 | 1 |
| Mr Kevin Xayaraj | 4 | 4 | N.A | N.A | N.A | N.A |
| Mr Henry Chua | 4 | 4 | N.A | N.A | 1 | 1 |
| Ms Ng Shin Ein | 4 | 4 | 4 | 4 | N.A | N.A |

The Board has access to management and the Company Secretary at all times. The Company Secretary (or representative) attends all Board meetings and ensures that all Board procedures and the requirements of the Companies Act, Cap. 50 and the Listing Manual of the Singapore Exchange Securities Trading Limited ("SGX-ST") are followed. The appointment and removal of the Company Secretary is a matter for the Board to decide as a whole.

As a general rule, board papers, including the quarterly financial statements, are sent to directors in advance of each meeting for directors to be adequately prepared for each meeting. The Board papers are deliberated over and approved by the Board at the meetings, with the Company Secretary recording the minutes of proceedings.

# Corporate Governance Report

Directors may seek and obtain independent professional advice in the furtherance of their duties, if necessary. Any expenses and costs associated thereto will be borne by the Manager.

## REMUNERATION MATTERS

### PROCEDURES FOR DEVELOPING REMUNERATION POLICIES

***Principle 7: There should be a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual directors. No director should be involved in deciding his own remuneration.***

### LEVEL AND MIX OF REMUNERATION

***Principle 8: The level and structure of remuneration should be aligned with the long-term interest and risk policies of the company, and should be appropriate to attract, retain and motivate (a) the directors to provide good stewardship of the company, and (b) key management personnel to successfully manage the company. However, companies should avoid paying more than is necessary for this purpose.***

### DISCLOSURE ON REMUNERATION

***Principle 9: Every company should provide clear disclosure of its remuneration policies, level and mix of remuneration, and the procedure for setting remuneration, in the company's Annual Report. It should provide disclosure in relation to its remuneration policies to enable investors to understand the link between remuneration paid to directors and key management personnel, and performance.***

The NRC, which has an independent majority, serves the crucial role of ensuring that a formal and transparent procedure is established for developing policy on executive remuneration and for fixing the remuneration packages of individual Directors. The remuneration policy comprises the following distinct objectives:

(a) to ensure that the procedure for determining remuneration for Directors and executive officers is formal and transparent;

(b) to ensure that the level of remuneration is sufficient to attract and retain Directors and that the remuneration packages are competitive in attracting and retaining employees;

(c) to ensure that no Director is involved in deciding on his own remuneration;

(d) to ensure that remuneration is commensurate with employees' duties, responsibilities and length of service;

(e) to build sustainable value-creation to align with long term Unitholder interest;

(f) to reward employees for achieving performance targets; and

(g) to enhance retention of key talents to build strong organisational capabilities.

# Corporate Governance Report

The NRC determines remuneration packages and service terms of individual Directors and the CEO in accordance with the aforementioned policies. Directors' fees also take into account the Directors' level of participation and contribution and their respective responsibilities. The NRC also regularly reviews and recommends to the Board, the framework for salary reviews, performance bonus and incentives for the other key management personnel, taking into consideration the performance of the Trust and that of the individual employee. There are currently no option schemes or other long-term incentive schemes for Directors and employees of the Manager and all remuneration is paid in cash only. All non-executive directors are paid a fixed salary and the CEO's remuneration is not linked to the gross revenue of the Trust. There are no employees who are immediate family members of any Director or the CEO and no such employee whose remuneration exceeds S$50,000 during the year. In addition, no director or executive officers are paid in the form of shares or interests in the Manager's controlling shareholder or its related entities and their remuneration is also not linked (directly or indirectly) to the performance of any entity other than the REIT.

Accordingly, the NRC takes a holistic approach to the development of remuneration policies for the Trust, and the framework of remuneration for the Board, key management personnel and individual employees is not considered in isolation. The NRC also considers how to build up depth in management strength and development of key management personnel to ensure sustainability, continual development of talent and renewal of strong and competent leadership in the interests of the Trust.

The remuneration of the Directors and employees of the Manager are not paid out of the deposited property of the Trust (which is the listed entity), but remunerated directly by the Manager from the fees it receives. In this regard, the Manager's report on each individual Director's and the key management personnel's remuneration paid and payable entirely in cash from 1 January 2016 to 31 December 2016 is disclosed as follows:

| Remuneration | Salary S$'000 | Bonus S$'000 | Director's fee S$'000 | Other Benefits S$'000 | Total S$'000 |
|---|---|---|---|---|---|
| **<u>Directors</u>** | | | | | |
| Mr Kevin Xayaraj (CEO) | 424.0 | 53.0 | - | 12.0 | 489.0 |
| Mr Steven Lim Kok Hoong | - | | 90.0 | - | 90.0 |
| Mr Yong Kok Hoon | - | - | 90.0 | - | 90.0 |
| Mr Henry Chua Tiong Hock | - | - | 55.0 | - | 55.0 |
| Ms Ng Shin Ein | - | - | 55.0 | - | 55.0 |

# Corporate Governance Report

| Remuneration | Salary % | Bonus % | Other Benefits % | Total % |
|---|---|---|---|---|
| **Key management personnel** | | | | |
| **S$250,000 – S$500,000** | | | | |
| Mr Bobby Tay Chiew Sheng | 85.6 | 10.7 | 3.7 | 100.0% |
| Mr Aw Wei Been | 77.5 | 19.4 | 3.1 | 100.0% |
| Ms Tan Chiew Kian | 82.0 | 17.1 | 0.9 | 100.0% |

Note: Remuneration is based on amount paid and payable, based on the Trust's financial year from 1 January 2016 to 31 December 2016. Bonus consists of annual wage supplement and performance bonus. Mobile and transport allowances are classified under Other Benefits. There were no other key management personnel.

By setting out the remuneration for each of the three key management personnel in bands of S$250,000 to S$500,000, the maximum and minimum range of the aggregate remuneration is apparent.

The key management team is small and to further disclose on a sensitive matter such as remuneration may subject the Manager to risk of staff turnover, which is not in the best interests of Unitholders. Therefore, the Board believes the Unitholders and the Trust will not be prejudiced as a result of such non-disclosure.

## ACCOUNTABILITY AND AUDIT

### ACCOUNTABILITY

***Principle 10: The Board should present a balanced and understandable assessment of the company's performance, position and prospects.***

The Manager prepares the financial statements in accordance with the Singapore Financial Reporting Standards prescribed by the Accounting Standards Council and Sabana REIT complies with Rule 705 of the Listing Manual of the SGX-ST (where applicable), which prescribes, among others, that quarterly results are to be announced no later than 45 days of the reporting period while full year results are to be announced no later than 60 days of the financial year end. In presenting the financial reports, the Board aims to provide a balanced and understandable assessment of the Trust's performance, position and prospects.

### RISK MANAGEMENT AND INTERNAL CONTROLS

***Principle 11: The Board is responsible for the governance of risk. The Board should ensure that Management maintains a sound system of risk management and internal controls to safeguard shareholders' interests and the company's assets, and should determine the nature and extent of the significant risks which the Board is willing to take in achieving its strategic objectives.***

# Corporate Governance Report

The Board, through the AC, reviews the adequacy of the Manager's risk management framework and ensures that a robust system of risk management and internal controls are in place to safeguard the interests of the Unitholders. The Manager benchmarks its risk management practices against the Risk Governance Guidance For Listed Boards for best standards.

The AC, through the assistance of internal and external auditors, reviews and reports to the Board on the adequacy and effectiveness of the Manager's system of controls, including financial, operational, compliance and information technology controls put in place by the management as part of the framework.

The Manager has adopted an enterprise-wide risk management ("ERM") framework to enhance its risk management capabilities. Through a structured risk identification process and the use of a risk register, the key financial, operational and compliance risks identified by the Management are documented and presented against the response strategies and control measures put in place to mitigate those risks. To enhance risk mitigation, the ERM framework is integrated with the internal auditor's annual work plan.

The following section presents a brief summary of the Trust's exposure to financial, operational, and compliance risks and the key measures in addressing these risks.

*Financial Risk*

In managing the Trust, the Manager adheres to all applicable financial covenants set by lenders as well as the aggregate leverage limit imposed by MAS in the Property Funds Appendix. To minimise financial risks, the Manager reviews the capital management policy of the Trust regularly and provides periodic updates to the Directors. All major capital market initiatives require the prior approval of the Board.

By employing an appropriate mix of debt and equity to finance property acquisitions, maintaining a certain level of cash for working capital and employing available Shari'ah-compliant derivatives to hedge risk exposure, the Manager strikes a strategic balance between safeguarding the going concern ability and optimal capital structure of the Trust with maximising Unitholders' value. Please refer to pages 146 to 153 for more details.

With effect from 1 January 2016, under the Property Funds Appendix, the Trust is allowed to have an aggregate leverage of up to 45% of its deposited property. The Trust has complied with the aggregate leverage limit throughout the year.

*Operational Risk*

The Manager has put in place a manual of standard operating procedures designed to identify, monitor, report and manage the operational risks associated with the day-to-day management of the Trust. The manual of standard operating procedures covers key risk areas such as investments and acquisitions, property and lease management, interested party transactions, finance and accounting, compliance, and information technology controls, and is periodically reviewed to stay relevant and effective.

# Corporate Governance Report

The Manager recognises that there is a significant amount of risk inherent in making property investment decisions. Accordingly, the Manager sets out clear procedures when making such decisions. For instance, an investment and risk management committee (comprising key members of the management, the investment officer , compliance officer and a representative of the Sponsor) was set up to ensure comprehensive due diligence is carried out in relation to each proposed investment. All property purchases and divestments require the prior approval of the Board.

Control self-assessments in key areas of operations are conducted by the Management on a periodic basis. Internal auditors, PricewaterhouseCoopers LLP ("PWC")[1] had also been engaged to perform independent reviews of the adequacy and effectiveness of the risk management processes and internal controls (see Principle 13). The Manager also has a Business Continuity Plan and a comprehensive insurance coverage in accordance with industry standards.

*Compliance Risk*

The Trust is subject to various rules and regulations stipulated by SGX-ST and other regulatory bodies. Any changes to the rules and regulations may affect the Trust's business.

The Manager holds a CMS licence for real estate investment trust management and its key officers are appointed as representatives by MAS under the SFA. Failure to comply with the regulations imposed by MAS may result in the licences being revoked or not renewed, adversely affecting the Trust's operations.

The Manager has policies and procedures for ensuring compliance with the applicable provisions of the SFA and all other relevant legislations, rules, notices and guidelines, including the Listing Manual of the SGX-ST, the Code on Collective Investment Schemes issued by the MAS including Property Funds Appendix, the Manager's obligations under the Trust Deed, Singapore Financial Reporting Standards, any tax ruling and the relevant contracts.

To mitigate non-compliance, the compliance officer regularly consults the regulatory bodies and works closely with the auditors, legal counsels, Company Secretary, senior management and AC to ensure adherence to all stipulated rules and regulations.

Board's Opinion on Internal Controls

Based on the internal controls and risk management framework established and maintained by the Management, work performed by the internal and external auditors, the assurance from the CEO and CFO that the financial records have been properly maintained, that the financial statements give a true and fair view of the Trust's operations and finances, and the assurance from the CEO and CFO regarding the effectiveness of the Manager's risk management and internal control systems, the Board, with the concurrence of the AC, is of the view that taking into account the nature, scale and complexity of the Manager's operations, the Trust's financial, operational, compliance and information technology controls, and risk management systems were adequate and effective as at 31 December 2016.

[1] In reviewing and monitoring the Manager's internal controls, the AC takes into consideration the need for periodic rotation of internal auditors. After October 2016, Ernst & Young Advisory Pte Ltd ("EY") was appointed to perform independent reviews of the adequacy and effectiveness of the risk management processes and internal controls. The AC thanks PWC for their contributions.

# Corporate Governance Report

In this regard, the Board notes that the system of internal controls and risk management provide a reasonable but not absolute assurance that the Trust will not be severely affected by any event that could be reasonably foreseen. Neither can any system of internal controls and risk management provide absolute assurance against the occurrence of material errors, poor judgment, human error, losses, fraud or other irregularities.

## AUDIT COMMITTEE

***Principle 12: The Board should establish an AC with written terms of reference which clearly set out its authority and duties.***

The AC assists the Board in fulfilling responsibilities relating to corporate governance and interested party transactions.

The AC is governed by written terms of reference defining its authority and duties, with explicit authority to investigate any matter within its term of reference. The AC has full access to and co-operation by Management and full discretion to invite any Director or employee of the Manager to attend its meetings.

As at 31 December 2016, the AC members were:

| | |
|---|---|
| Mr Yong Kok Hoon (Chairman) | (Independent Director) |
| Mr Steven Lim Kok Hoong | (Independent Director) |
| Ms Ng Shin Ein[1] | (Non-executive Director) |

The main duties of the AC includes reviewing and monitoring the effectiveness of the Manager's internal controls relating to financial, operational, compliance and risk management processes. The AC receives regular updates by external auditors to keep abreast of changes to accounting standards and issues which may have a direct impact on financial statements. The AC meets with internal and external auditors without the presence of management at least once a year.

The AC meets at least once every quarter and the key activities include:

- Reviewing and recommending to the Board for approval, the quarterly and full year financial results and related SGX announcements;
- Reviewing Related Party Transactions and any donations of income derived from non-Shari'ah compliant sources or non-core activities to charities;
- Reviewing and approving the internal and external audit plans to ensure adequacy of the audit scope;
- Reviewing the adequacy and effectiveness of the internal audit function;
- Reviewing and evaluating with internal and external auditors, the adequacy and effectiveness of internal control systems, including financial, operational and compliance controls, and risk management policies and framework;

[1] Following Ms Ng's resignation, there will only be two AC members and the Manager will be searching for a new director to be appointed to the Board and the Audit Committee, so as to comply with the requirements of the Code.

# Corporate Governance Report

- Reviewing the internal and external audit reports and monitoring the timely and proper implementation of any corrective or improvement measures;
- Reviewing the nature and extent of non-audit services performed by the external auditors.
- Reviewing the independence and objectivity of the external auditors, and recommending to the Board on their re-appointment; and
- Reviewing whistle-blowing arrangements put in place by Management.

The Board is of the view that all the members of the AC are suitably qualified with finance and legal backgrounds to assist the Board in the areas of internal controls, financial and accounting matters, compliance and risk management, including oversight over Management in the design, implementation and monitoring of risk management and internal control systems.

External Auditors

The AC makes recommendation to the Board on the appointment/re-appointment of the external auditors, taking into consideration the scope, results of the audit, as well as the cost effectiveness, independence and objectivity of the external auditors.

During the year, the AC has conducted a review of all non-audit services provided by the external auditors to Sabana REIT and its subsidiaries and is satisfied that the extent of such services will not prejudice the independence and objectivity of the external auditors. The amount paid and payable to external auditors for audit and non-audit services fees were approximately S$254,000 and S$90,000 respectively, for the financial year under review.

The AC, with the concurrence of the Board, has recommended the re-appointment of KPMG LLP as the external auditors. The re-appointment of the external auditors will be subject to approval by way of an ordinary resolution of Unitholders at the AGM, to be held on 28 April 2017.

In appointing the audit firms for the Trust and its subsidiaries, the Board is satisfied that the Trust has complied with the requirements of Rules 712 and 715 of the Listing Manual of the SGX-ST.

Whistle-blowing Policy

The AC has established procedures to provide employees of the Manager and the tenants and vendors of the Trust with well-defined and accessible channels to report on suspected fraud, corruption, dishonest practices or other similar matters relating to the Trust or the Manager, and for the independent investigation of any reports and appropriate follow-up action.

The aim of the whistle-blowing policy is to encourage the reporting of such matters in good faith, with the confidence that those making such reports will be treated fairly, and to the extent possible, be protected from reprisal. Where appropriate, an independent third party may be appointed to assist in the investigation.

There were no reports of whistle-blowing received for the year.

# Corporate Governance Report

## INTERNAL AUDIT

***Principle 13: The company should establish an effective internal audit function that is adequately resourced and independent of the activities it audits.***

The internal audit function of the Manager was outsourced to PWC. The internal auditors are guided by the International Standards for the Professional Practice of Internal Auditing set by the Institute of Internal Auditors, and report directly to the AC on audit matters.

The internal auditors conduct audit reviews based on the internal audit plan approved by the AC, and report their findings and recommendations to management who would respond on the actions to be taken. The internal auditors submit internal audit reports at least twice yearly to the AC. The AC is of the view that the internal auditors have adequate resources to perform its functions.

## SHAREHOLDER RIGHTS AND RESPONSIBILITIES

## SHAREHOLDER RIGHTS

***Principle 14: Companies should treat all shareholders fairly and equitably, and should recognise, protect and facilitate the exercise of shareholders' rights, and continually review and update such governance arrangements.***

## COMMUNICATION WITH UNITHOLDERS

***Principle 15: Companies should actively engage their shareholders and put in place an investor relations policy to promote regular, effective and fair communication with shareholders.***

The Manager is committed to regular, effective and fair communication with Unitholders. It has a dedicated IR team which regularly communicates with the Unitholders and attends to their queries and concerns.

The Manager's disclosure policy requires the timely and full disclosure of all material information relating to the Trust by way of public releases or announcement through the SGX-ST via SGXNET at first instance and subsequently, by way of release on the website at http://www.sabana-reit.com. The Manager clearly communicates its current policy of distributing 100% of its distributable income to Unitholders.

The Manager conducts regular briefings for analysts which will generally coincide with the release of the Trust's quarterly results. The IR team utilises its website as a means of providing information to the Unitholders and the broader investment community. News releases, investor presentations and quarterly and full year financial results are available on the website immediately after they have been released to the market.

More details on IR activities and efforts are found on pages 18 - 19 of this Annual Report.

# Corporate Governance Report

## CONDUCT OF SHAREHOLDER MEETINGS

***Principle 16: Companies should encourage greater shareholder participation at general meetings of shareholders, and allow shareholders the opportunity to communicate their views on various matters affecting the company.***

The Manager welcomes active Unitholder participation at the AGM. It believes that AGMs serve as an opportune forum for Unitholders to meet the Board and senior management and to communicate their views.

The Manager has implemented the system of voting by poll at its AGMs. Results of each resolution put to vote at the AGM are processed by independent scrutineers and the results are be announced with details of percentages in favour and against. Separate resolutions are proposed for substantially separate issues at the meetings.

The Chairman of the Board, the respective Chairmen of the Board Committees, Management and the external auditors are present to address Unitholders' queries at the AGMs.

## DEALING IN SECURITIES

The Manager's Code of Best Practices on Securities Transactions encourages Directors and employees to hold Units but forbids them to:

- Trade during the black-out period, which commences one month before the announcement of property valuations, quarterly or annual results to the public and ending on the day of announcement or other specified date.
- Trade at any time in possession of price-sensitive information.
- Communicate price-sensitive information to any person as imposed by insider trading laws.
- Trade in Units on short-term considerations.

Directors are also required to disclose their dealings in Units to the Manager within two business days after such acquisition or occurrence. Announcements of such interest notifications will be made via SGXNET.

In addition, the Manager will comply with any relevant disclosure requirements under the SFA. The Manager has also undertaken that it will not deal in the Units during the period commencing one month before the public announcement of the Trust's annual results, quarterly results and (where applicable) property valuations, and ending on the date of announcement of the relevant results, or the case may be, property valuations.

# Corporate Governance Report

## DEALING WITH CONFLICTS OF INTEREST

The following procedures are established by the Manager to deal with potential conflicts of interest issues:

- The Manager is dedicated to Sabana REIT and will not manage other REITs which invest in similar properties as Sabana REIT.

- All executive officers will be working exclusively for the Manager and will not hold executive positions in other firms;

- At least one third of Directors must be independent. All resolutions in writing of the Directors in relation to matters concerning the Trust must be approved by a majority of the Directors who do not hold an interest, including at least two Independent Directors;

- In respect of matters in which the Sponsor and/or its subsidiaries have an interest, direct or indirect, any nominees appointed by the Sponsor and/or its subsidiaries to the Board to represent their interest will abstain from voting. In such matters, the quorum must comprise a majority of the Independent Directors and must exclude the nominee Directors of the Sponsor and/ or its subsidiaries.

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

There are no material contracts entered into by Sabana REIT or any of its subsidiaries that involve the interests of the CEO, any Director or any controlling Unitholder, except as disclosed in this annual report.

# Corporate Governance Report

## DEALING WITH RELATED PARTIES

The Manager has established procedures to ensure that all Related Party Transactions will be undertaken on an arm's length basis and on normal commercial terms, which are generally no more favourable than those extended to unrelated third parties. Thus, the interests of the Trust and the Unitholders will not be prejudiced. All Related Party Transactions will be subjected to regular periodic reviews by the AC:

- Transactions (either individually or as part of a series or if aggregated with other transactions involving the same interested person during the same financial year) equal to or exceeding S$100,000.00 in value but below 3% of the value of Sabana REIT's net tangible assets will be subject to review by the AC at regular intervals;

- Transactions (either individually or as part of a series or if aggregated with other transactions involving the same interested person during the same financial year) equal to or exceeding 3% but below 5% of the value of Sabana REIT's net tangible assets will be subject to review and prior approval of the AC and immediately announced on SGX-ST. Such approval shall only be given if the transactions are on normal commercial terms and are consistent with similar types of transactions made by the Trustee with third parties which are unrelated to the Manager;

- Transactions (either individually or as part of a series or if aggregated with other transactions involving the same interested person during the same financial year) equal to or exceeding 5% of the value of Sabana REIT's net tangible assets will be reviewed and approved prior to such transactions being entered into, on the basis described in the preceding paragraph, by the AC which may, as it deems fit, request advice on the transactions from independent advisers, including the obtaining of valuations from independent professional valuers. Furthermore, under the Listing Manual of the SGX-ST and the Property Funds Appendix, such transactions would have to be approved by the Unitholders at a meeting of Unitholders duly convened and held in accordance with the provisions of the Trust Deed; and

- Aggregate value of Related Party Transactions entered into during the financial year under review will be disclosed in the Annual Report. See page 168 for the disclosure.

As a general rule, the Manager must demonstrate to its AC that such transactions satisfy the foregoing criteria, which may entail obtaining (where practicable) quotations from parties unrelated to the Manager; or obtaining two or more valuations from independent professional valuers (in accordance with the Property Funds Appendix).

For Related Party Transactions entered into or to be entered into by the Trustee, the Trustee is required to consider the terms of such transactions to satisfy itself that such transactions are conducted on an arm's length basis and on normal commercial terms, are not prejudicial to the interests of the Trust and the Unitholders, and are in accordance with all applicable requirements of the Property Funds Appendix and/or the Listing Manual of the SGX-ST relating to the transaction in question.

# Corporate Governance Report

Further, the Trustee has the ultimate discretion under the Trust Deed to decide whether or not to enter into a Related Party Transaction. If the Trustee is to sign any Related Party Transaction contract, the Trustee will review the contract to ensure that it complies with the requirements relating to Related Party Transactions as well as such other guidelines as may from time to time be prescribed by the MAS and the SGX-ST to apply to real estate investment trusts.

The Manager will maintain a register to record and will incorporate into its internal audit plan a review, of all Related Party Transactions which are entered into by the Trust. The AC shall review the internal audit reports to ascertain that the guidelines and procedures established to monitor Related Party Transactions have been complied with. In addition, the Trustee will also have the right to review such audit reports to ascertain that the Property Funds Appendix have been complied with. The AC will periodically review all Related Party Transactions to ensure compliance with the Manager's internal control procedures and with the relevant provisions of the Property Funds Appendix and/or the Listing Manual of the SGX-ST. The review will include the examination of the nature of the transactions and the supporting documents or such other data deemed necessary by the AC.

If a member of the AC has an interest in a transaction, he is required to abstain from participating in the review and approval process in relation to that transaction.

## DEALING WITH SHARI'AH COMPLIANCE

Shari'ah compliance means adherence to the tenets of Islamic law, which places due consideration upon ethics and social responsibility. The Manager ensures total non-Shari'ah compliant rental income does not exceed 5% per annum of the gross revenue of the Trust's portfolio of properties. As part of the due cleansing procedure, donation of non-compliant income is made to charitable causes (without tax benefits) on a quarterly basis. For FY 2016, the non-compliant income came to approximately 0.29% of gross revenue.

Five Pillars Pte. Ltd. ("Five Pillars"), based in Singapore, was appointed by the Manager to act as the Shari'ah Adviser. Five Pillars serves as a conduit between the Independent Shari'ah Committee ("ISC") and the compliance officer of the Manager, liaising frequently on Shari'ah matters throughout the year.

The ISC comprises eminent scholars and experts. They are:

- Dr. Mohamed Ali Elgari (Professor at King Abdulaziz University in Saudi Arabia);
- Professor Dr. Obiyathulla Ismath Bacha (Professor at the International Centre for Education in Islamic Finance in Malaysia); and
- Dr. Ashraf bin Mohammed Hashim (Associate Professor at International Islamic University Malaysia)

# Corporate Governance Report

The Trust follows the standards promulgated by the Auditing and Accounting Organisation of the Islamic Financial Institutions and/or the Islamic Financial Services Board. To assess on-going compliance of the Trust, the Shari'ah Adviser, on behalf of and working closely with the ISC:

- Prior to the issuance of the Shari'ah certificate for annual status, an inspection and verification will be conducted on the properties and activities of the Trust. A representative of Five Pillars will visit the individual properties in the portfolio to ensure that businesses on the premises are compliant and agree with the leasing contracts signed. For FY 2016, the Trust successfully passed the inspection.

- For new funding, consent will be obtained on inception. Shari'ah certification and other supporting documents from the issuing or arranger bank will be vetted and approved by the ISC. For FY 2016, the Trust has not utilised interest-based borrowing or other non-Shari'ah compliant financing.

On completion of the annual audit, the ISC will sign off and issue the certificate which will be delivered by the Shari'ah Adviser to the Manager. The Trust has successfully renewed its annual Shari'ah certificate, valid until 31 December 2017. The certificate is displayed on the Trust's website www.sabana-reit.com. The total amount of fees incurred for Shari'ah advisory services for FY 2016 was approximately S$103,000.

Under Shari'ah principles, provisions are made for remedial actions. In the event of a breach or deviation, the Manager must disclose as soon as practicable to the Shari'ah Adviser and the ISC the necessary details and supporting documents. Rectification as advised is applied to the particular activity within an agreed time frame before any distributions are made to Unitholders.

## UTILISATION OF RIGHTS ISSUE PROCEEDS

On 20 December 2016, the Manager launched the Rights Issue to raise gross proceeds of approximately S$80.2 million. On 6 February 2017, the Manager made an announcement via SGXNET to provide an update on the use of proceeds as follows:

(a) S$60.0 million to repay an existing five-year S$75.0 million term Commodity Murabaha facility due in August 2017;

(b) S$16.5 million to be placed in short-term bank deposits;

(c) approximately S$2.5 million to pay the underwriting commission and expenses including the applicable GST thereon to the Joint Lead Managers and Underwriters; and

(d) approximately S$1.2 million to pay the other professional fees and charges relating to the Rights Issue.

# Corporate Governance Report

## FEES PAYABLE TO THE MANAGER

The Manager is entitled under Clauses 15.1 and 15.2 of the Trust Deed to the following fees:

| | Fees payable by the Trust | Amount payable |
|---|---|---|
| 1 | Management fee (payable to the Manager or its nominee) | **Base Fee**<br>A fee not exceeding the rate of 0.5% per annum of the value of the Deposited Property.<br><br>**Performance Fee**<br>0.5% per annum (or such lower percentage as may be determined by the Manager in its absolute discretion) of the Net Property Income of Sabana REIT or its relevant Special Purpose Vehicles ("SPVs") in each financial year, payable on a yearly basis, provided Sabana REIT achieves at least 10% annual growth in DPU over the previous financial year (calculated after accounting for the performance fee (if any) for that financial year and after adjusting, at the discretion of the Manager, for any new Units arising from the conversion or exercise of any instruments convertible into Units which are outstanding at the time of calculation, and any rights or bonus issue, consolidation, subdivision or buy-back of Units).<br><br>The Manager may elect to receive the Base Fee and Performance Fee in cash or Units or a combination of cash and Units (as it may in its sole discretion determine).<br><br>The Manager has elected to receive 80.0% of the Base Fee in the form of Units for FY 2016. |
| 2 | Fee for acquisition of properties (payable to the Manager or its nominee)[1] | **Acquisition Fee**<br>1.0% (or such lower percentage as may be determined by the Manager in its absolute discretion) of the acquisition price of real estate of real estate-related assets acquired:<br><br>• in relation to an acquisition (whether directly or indirectly through one or more SPVs of any real estate, the acquisition price of any real estate purchased by the Trust, plus any other payments[2] in addition to the acquisition price made by the Trust or its SPVs to the vendor in connection with the purchase of the real estate (pro-rated if applicable to the proportion of the Trust's interest); |

[1] Acquisition fees are paid in cash. Whereby properties are acquired from interested parties, acquisition fees will be paid in Units issued by Sabana REIT at the prevailing market price and will be held for one year from the date of issuance.

[2] "**Other payments**" refers to additional payments to the vendor of the asset, for example, where the vendor has already made certain payments for enhancements to the asset, and the value of the asset enhancements is not reflected in the acquisition price as the asset enhancements are not completed, but "other payments" do not include stamp duty or other payments to third party agents and brokers.

# Corporate Governance Report

| | | |
|---|---|---|
| | | • in relation to an acquisition (whether directly or indirectly through one or more SPVs of the Trust) of any SPVs or holding entities which holds real estate, the underlying value of any real estate which is taken into account when computing the acquisition price payable for the acquisition from the vendor of the equity interests of any vehicle holding directly or indirectly the real estate purchased by the Trust, plus any additional payments made by the Trust or its SPVs to the vendor in connection with the purchase of such equity interests) (pro-rated if applicable to the proportion of the Trust's interest); or<br><br>• the acquisition price of any investment by the Trust, whether directly or indirectly through one or more SPVs, in any debt securities of any property corporation or other SPV owning or acquiring real estate. |
| 3 | Fee for divestment of properties (payable to the Manager or its nominee)[3] | **Divestment Fee**<br>0.5% (or such lower percentage as may be determined by the Manager in its absolute discretion) of each of the following as is applicable (subject to there being no double-counting):<br><br>• the sale price of any real estate sold or divested, whether directly or indirectly through one or more SPVs, by the Trust (plus any other payments[4] in addition to the sale price received by the Trust or its SPVs from the purchaser in connection with the sale or divestment of the real estate) (pro rated if applicable to the proportion of the Trust's interest);<br><br>• the underlying value of any real estate related assets which is taken into account when computing the sale price for such real estate-related assets, sold or divested, whether directly or indirectly through one or more SPVs, by the Trust (pro rated if applicable to the proportion of the Trust's interest); or<br><br>• the sale price of any investment by the Trust, whether directly or indirectly through one or more SPVs, in any debt securities of any property corporation or other SPVs owning or acquiring real estate. |

[3] Divestment fees are paid in cash. Whereby properties are sold to interested parties, divestment fees will be paid in Units issued by Sabana REIT at the prevailing market price and will be held for one year from the date of issuance.

[4] "**Other payments**" refers to additional payments to the Trust or its SPVs for the sale of the asset, for example, where the Trust or its SPVs have already made certain payments for enhancements to the asset, and the value of the asset enhancements is not reflected in the sale price as the asset enhancements are not completed, but do not include stamp duty or other payments to third party agents and brokers.

The Manager is responsible for managing the assets and liabilities of the Trust for the benefit of its Unitholders. Accordingly, the Manager should be compensated fairly for its efforts in the overall management of the Trust's various affairs. The Manager will be receiving the majority of its Base Fees in Units and this will serve to align the interests of the Manager with that of Unitholders as the Manager will assume an interest in the performance of the Trust. The Base Fee payable to the Manager has been assessed by the Board and the Board believes that the Base Fee is reasonable and in line with market rates.

# Corporate Governance Report

No Performance Fees were payable for FY 2016. The Board would like to inform Unitholders that Performance Fees are only payable when the Manager has achieved a certain level of growth in DPU over the previous financial year. Accordingly, the Board is of the view that the Performance Fee will incentivise the Manager to seek growth opportunities and encourage the Manager to act in the interests of Unitholders to enhance the DPU. An increase of the DPU by 10% year-on-year is challenging and the Performance Fee will incentivise the Manager to take a holistic and balanced approach towards assuming sensible risks to grow the Trust over the long-term. In addition, the Performance Fee payable to the Manager has been assessed by the Board and the Board believes that the Trust's Performance Fee is reasonable and in line with market practices.

The Acquisition Fee and Divestment Fee are necessary to incentivise the Manager to source for inorganic growth and to realise gains from the divestment of mature assets that no longer suit the portfolio. The Manager has to undertake additional scope of work over and above the overall management of the Trust when undertaking acquisition or divestment opportunities and should be compensated fairly to reflect the effort expended and the costs incurred in such transactions. Accordingly, the Board has considered and is of the view that the Acquisition Fee and Divestment Fee are reasonable and in line with market rates to ensure that the Manager acts in the interests of the Trust and Unitholders.

The Property Manager, as a wholly-owned subsidiary of the Manager, is entitled under the Master Property Management Agreement to the following fees:

| | Payable by the Trust | Amount payable |
|---|---|---|
| 1 | Property management fee (payable to the Property Manager) | **Property Management Fee**<br>2.0% per annum of gross revenue of each property under the management of the Property Manager. |
| 2 | Lease management fee (payable to the Property Manager) | **Lease Management Fee**<br>1.0% per annum of gross revenue of each property under the management of the Property Manager. |

The Property Manager provides property management services to the Trust. In return for its services, the Property Manager should be compensated fairly for its efforts. The fees payable to the Property Manager has been assessed by the Board. The Board believes that the fees payable to the Property Manager are reasonable and in line with market rates. In addition, the Property Management Fee and Lease Management Fee have been structured so that the Property Manager is incentivised to improve the performance of the properties as these fees are pegged to the gross revenue of the properties.

# FINANCIAL CONTENTS

# Report of the Trustee

HSBC Institutional Trust Services (Singapore) Limited (the "Trustee") is under a duty to take into custody and hold the assets of Sabana Shari'ah Compliant Industrial Real Estate Investment Trust (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 Sabana Real Estate Investment 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 29 October 2010 (as amended by the First Supplemental Deed dated 2 December 2010, the First Amending and Restating Deed dated 24 February 2016 and the Second Amending and Restating Deed dated 24 March 2016) (collectively, the "Trust Deed") between the Manager and the Trustee in each annual accounting period and report thereon to Unitholders in an annual report.

To the best knowledge of the Trustee, the Manager has, in all material respects, managed the Trust during the period covered by these financial statements, set out on pages 101 to 167 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,**
**HSBC Institutional Trust Services (Singapore) Limited**

______________________________
**Esther Fong**
*Senior Vice President, Trustee Services*

Singapore
15 March 2017

# Statement by the Manager

In the opinion of the directors of Sabana Real Estate Investment Management Pte. Ltd. (the “Manager”), the accompanying financial statements of Sabana Shar’iah Compliant Industrial Real Estate Investment Trust (the "Trust") and its subsidiaries (the "Group") set out on pages 101 to 167 comprising the Statements of Financial Position, Statements of Total Return, Distribution Statements and Statements of Movements in Unitholders’ Funds of the Group and of the Trust, Consolidated Portfolio Statement and Statement of Cash Flows of the Group and notes to the financial statements are drawn up so as to present fairly, in all material respects, the financial position of the Group and of the Trust as at 31 December 2016, the total return, distributable income and movements in Unitholders’ funds of the Group and of the Trust and cash flows of the Group for the 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 Group and the Trust will be able to meet their financial obligations as and when they materialise.

**For and on behalf of the Manager,**
**Sabana Real Estate Investment Management Pte. Ltd.**

**Kevin Xayaraj**
*Executive Director and Chief Executive Officer*

Singapore
15 March 2017

# Independent Auditors' Report

Unitholders
Sabana Shari'ah Compliant Industrial Real Estate Investment Trust

*(Constituted in the Republic of Singapore pursuant to a trust deed dated 29 October 2010 (as amended by the First Supplemental Deed dated 2 December 2010, the First Amending and Restating Deed dated 24 February 2016 and the Second Amending and Restating Deed dated 24 March 2016))*

**Report on the audit of the financial statements**

*Opinion*

We have audited the financial statements of Sabana Shari'ah Compliant Industrial Real Estate Investment Trust (the "Trust") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position and consolidated portfolio statement of the Group and the statement of financial position of the Trust as at 31 December 2016, the consolidated statement of total return, consolidated distribution statement, consolidated statement of movements in Unitholders' funds and consolidated statement of cash flows of the Group and the statement of total return, distribution statement and statement of movements in Unitholders' funds of the Trust for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 101 to 167.

In our opinion, the accompanying consolidated financial statements of the Group and the statement of financial position, the statement of total return, distribution statement and statement of movements in Unitholders' funds of the Trust present fairly, in all material respects, the consolidated financial position of the Group and the financial position of the Trust as at 31 December 2016 and the consolidated total return, consolidated distributable income, consolidated movements in Unitholders' funds and consolidated cash flows of the Group and the total return, distributable income, movements in Unitholders' funds of the Trust for the year ended 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 Group in accordance with the Accounting and Corporate Regulatory Authority *Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities* ("ACRA Code") together with the ethical requirements that are relevant to our audit of the financial statements in Singapore, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the ACRA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

# Independent Auditors' Report (continued)

*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 4 to the financial statements)

*Risk*

The Group's property portfolio, valued at approximately $1,003.6 million as at 31 December 2016, comprises 21 properties strategically located across Singapore. The Group has four main industrial property segments: High-tech Industrial, Chemical Warehouse and Logistics, Warehouse and Logistics and General Industrial.

The investment properties are stated at fair values based on independent external valuations. The independent external valuers use valuation techniques including income capitalisation approach, discounted cash flow method and direct comparison method. The key assumptions used and estimates to be applied in determining the valuation of investment properties involve significant judgement, and as a result, the valuation process is considered as a key audit matter.

*How the matter was addressed in our audit*

We assessed the Group's process for selection of external valuers and understood the scope of work of the valuers. We evaluated the competence, capability and objectivity of the external valuers engaged by the Group and held discussions with the valuers to understand their valuation methods and key assumptions used.

We considered the appropriateness of the valuation methodologies adopted and assessed the reasonableness of the key assumptions and estimates used. We compared the key assumptions and estimates which include capitalisation rate, discount rate and terminal yield with available industry data, taking into consideration comparability and market forces. Where the key inputs were outside the expected range, we undertook further procedures and held further discussions with the valuers to understand the effects of additional factors taken into account in the valuations. We also considered the adequacy of the disclosures in the financial statements.

*Our findings*

The external valuers are members of generally-recognised professional bodies for valuers. The approach to the methodologies and in deriving the assumptions in the valuations is supported by market data and practices, and the disclosures in the financial statements are in compliance with RAP 7.

# Independent Auditors' Report (continued)

*Other information*

Sabana Real Estate Investment Management Pte. Ltd., the manager of the Trust (the "Manager"), is responsible for the other information. The other information comprises the *Letter to Unitholders, Corporate Profile, Core Values, Vision and Mission, Our Strategy, Our Trust Structure, Shari'ah Compliance Commonly Asked Questions, 2016 Significant Events, Financial Highlights, Financial Review, Investor Relations, Unit Performance, Independent Market Study, Property Portfolio, Operations Review, Board of Directors, Management Team, Corporate Social Responsibility, Corporate Governance Report, Report of the Trustee, Statement by the Manager, Additional Information and Statistics of Unitholdings*.

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 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.

*Responsibilities of the Manager for the financial statements*

The management of 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 management of 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 management of the Manager either intends to terminate the Group or to cease operations, or has no realistic alternative but to do so.

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

*Auditors' responsibilities for the audit of the financial statements*

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

# Independent Auditors' Report (continued)

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 management of 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.

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.

# Independent Auditors' Report (continued)

We also provide the directors of 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 Karen Lee Shu Pei.

KPMG LLP

**KPMG LLP**
*Public Accountants and*
*Chartered Accountants*

Singapore
15 March 2017

# Statements of Financial Position

As at 31 December 2016

| | Note | Group 2016 $'000 | Group 2015 $'000 | Trust 2016 $'000 | Trust 2015 $'000 |
|---|---|---|---|---|---|
| **Non-current assets** | | | | | |
| Investment properties | 4 | 990,600 | 1,090,200 | 990,600 | 1,090,200 |
| Subsidiaries | 6 | – | – | * | * |
| Derivative assets | 12 | 522 | – | 522 | – |
| | | 991,122 | 1,090,200 | 991,122 | 1,090,200 |
| **Current assets** | | | | | |
| Investment properties held for divestment | 4 | 13,000 | 54,600 | 13,000 | 54,600 |
| Derivative assets | 12 | – | 403 | – | 403 |
| Trade and other receivables | 7 | 9,561 | 9,758 | 9,553 | 9,750 |
| Cash and cash equivalents | 8 | 9,206 | 10,438 | 9,201 | 10,432 |
| | | 31,767 | 75,199 | 31,754 | 75,185 |
| **Total assets** | | 1,022,889 | 1,165,399 | 1,022,876 | 1,165,385 |
| **Current liabilities** | | | | | |
| Trade and other payables | 9 | 14,097 | 14,438 | 14,095 | 14,431 |
| Borrowings | 10 | 130,209 | 147,288 | 130,440 | 147,288 |
| Derivative liabilities | 12 | 562 | 2 | 562 | – |
| | | 144,868 | 161,728 | 145,097 | 161,719 |
| **Non-current liabilities** | | | | | |
| Trade and other payables | 9 | 13,511 | 15,928 | 13,511 | 15,928 |
| Borrowings | 10 | 307,715 | 333,796 | 307,715 | 334,329 |
| Derivative liabilities | 12 | – | 206 | – | 206 |
| | | 321,226 | 349,930 | 321,226 | 350,463 |
| **Total liabilities** | | 466,094 | 511,658 | 466,323 | 512,182 |
| **Net assets** | | 556,795 | 653,741 | 556,553 | 653,203 |
| Represented by: | | | | | |
| **Unitholders' funds** | | 556,795 | 653,741 | 556,553 | 653,203 |
| **Units issued and to be issued ('000)** | 13 | 742,371 | 734,027 | 742,371 | 734,027 |

* Less than $1,000

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

# Statements of Total Return

For the year ended 31 December 2016

| | Note | Group 2016 $'000 | Group 2015 $'000 | Trust 2016 $'000 | Trust 2015 $'000 |
|---|---|---|---|---|---|
| Gross revenue | 16 | 91,807 | 100,824 | 91,807 | 100,824 |
| Property expenses | 17 | (34,865) | (29,219) | (34,865) | (29,219) |
| **Net property income** | | 56,942 | 71,605 | 56,942 | 71,605 |
| Finance income | | 293 | 130 | 293 | 130 |
| Finance costs | | (21,089) | (21,548) | (20,773) | (21,106) |
| **Net finance costs** | 18 | (20,796) | (21,418) | (20,480) | (20,976) |
| Amortisation of intangible assets | | – | (447) | – | (447) |
| Manager's fees | 19 | (5,333) | (6,263) | (5,333) | (6,263) |
| Trustee's fees | | (454) | (544) | (454) | (544) |
| Donation of non-Shari'ah compliant income | 20 | (113) | (63) | (113) | (63) |
| Other trust expenses | 21 | (1,055) | (1,209) | (1,073) | (1,226) |
| Loss on exercise of put option on Convertible Sukuk by Sukukholders | | – | (648) | – | (227) |
| | | (6,955) | (8,727) | (6,973) | (8,323) |
| **Net income** | | 29,191 | 41,013 | 29,489 | 41,859 |
| Net change in fair value of financial derivatives | | (235) | 2,259 | (237) | 1,660 |
| Net change in fair value of investment properties | | (90,862) | (116,708) | (90,862) | (116,708) |
| Loss on divestment of investment properties | | (558) | – | (558) | – |
| **Total return for the year before taxation and distribution** | | (62,464) | (73,436) | (62,168) | (73,189) |
| Tax expense | 22 | * | * | – | – |
| **Total return for the year after taxation and before distribution** | | (62,464) | (73,436) | (62,168) | (73,189) |
| **Earnings per Unit (cents)** | | | | | |
| Basic | 23 | (8.48) | (10.07) | (8.44) | (10.04) |
| Diluted | 23 | (8.48) | (10.07) | (8.44) | (10.04) |

* Less than $1,000

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

# Distribution Statements

For the year ended 31 December 2016

| | Group | | Trust | |
|---|---|---|---|---|
| | **2016** | **2015** | **2016** | **2015** |
| | **$'000** | **$'000** | **$'000** | **$'000** |
| **Income available for distribution to Unitholders at beginning of the year** | 11,120 | 12,992 | 11,120 | 12,992 |
| Total return for the year after taxation and before distribution | (62,464) | (73,436) | (62,168) | (73,189) |
| Non-tax deductible/(chargeable) items: | | | | |
| Manager's fees paid/payable in Units | 4,266 | 5,011 | 4,266 | 5,011 |
| Amortisation of intangible assets | – | 447 | – | 447 |
| Amortisation of transaction costs | 2,784 | 2,284 | 2,482 | 1,857 |
| Trustee's fees | 454 | 544 | 454 | 544 |
| Donation of non-Shari'ah compliant income | 113 | 63 | 113 | 63 |
| Net change in fair value of financial derivatives | 235 | (2,259) | 237 | (1,660) |
| Net change in fair value of investment properties | 90,862 | 116,708 | 90,862 | 116,708 |
| Loss on divestment of investment properties | 558 | – | 558 | – |
| Loss on exercise of put option on Convertible Sukuk by Sukukholders | – | 648 | – | 227 |
| Effects of recognising rental income on a straight line basis over the lease term | (362) | (369) | (362) | (369) |
| Other items | 503 | 494 | 507 | 496 |
| Net effect of non-tax deductible items | 99,413 | 123,571 | 99,117 | 123,324 |
| **Income available for distribution to Unitholders** | 48,069 | 63,127 | 48,069 | 63,127 |

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

# Distribution Statements (continued)

For the year ended 31 December 2016

| | Group | | Trust | |
|---|---|---|---|---|
| | **2016** | **2015** | **2016** | **2015** |
| | **$'000** | **$'000** | **$'000** | **$'000** |
| Distribution of 1.20 cents per Unit for the period 1 July 2016 to 30 September 2016 | (8,877) | – | (8,877) | – |
| Distribution of 1.23 cents per Unit for the period 1 April 2016 to 30 June 2016 | (9,074) | – | (9,074) | – |
| Distribution of 1.33 cents per Unit for the period 1 January 2016 to 31 March 2016 | (9,786) | – | (9,786) | – |
| Distribution of 1.50 cents per Unit for the period 1 October 2015 to 31 December 2015 | (11,011) | – | (11,011) | – |
| Distribution of 1.77 cents per Unit for the period 1 July 2015 to 30 September 2015 | – | (12,963) | – | (12,963) |
| Distribution of 1.80 cents per Unit for the period 1 April 2015 to 30 June 2015 | – | (13,151) | – | (13,151) |
| Distribution of 1.78 cents per Unit for the period 1 January 2015 to 31 March 2015 | – | (12,971) | – | (12,971) |
| Distribution of 1.78 cents per Unit for the period 1 October 2014 to 31 December 2014 | – | (12,922) | – | (12,922) |
| | (38,748) | (52,007) | (38,748) | (52,007) |
| **Income available for distribution to Unitholders at end of the year** | 9,321 | 11,120 | 9,321 | 11,120 |
| **Number of Units entitled to distributions ('000) (Note 13)** | 1,053,083 | 734,027 | 1,053,083 | 734,027 |
| **Distribution per Unit (cents)*** | 4.17 | 5.99 | 4.17 | 5.99 |

* Incorporates the effects of the rights issue (including effects of bonus element) undertaken by Sabana REIT in December 2016 and was completed in January 2017.

# Statements of Movements in Unitholders' Funds

For the year ended 31 December 2016

| | Group | | Trust | |
|---|---|---|---|---|
| | **2016** **$'000** | **2015** **$'000** | **2016** **$'000** | **2015** **$'000** |
| **Unitholders' funds at beginning of the year** | 653,741 | 772,585 | 653,203 | 771,800 |
| **Operations** | | | | |
| Total return after taxation and before distribution | (62,464) | (73,436) | (62,168) | (73,189) |
| | 591,277 | 699,149 | 591,035 | 698,611 |
| **Unitholders' transactions** | | | | |
| Issue of new Units: | | | | |
| - Manager's fees paid in Units | 3,238 | 3,836 | 3,238 | 3,836 |
| - Manager's fees payable in Units | 1,028 | 1,175 | 1,028 | 1,175 |
| - Distribution Reinvestment Plan ("DRP") | – | 1,628 | – | 1,628 |
| Issue expenses | – | (40) | – | (40) |
| Distributions to Unitholders | (38,748) | (52,007) | (38,748) | (52,007) |
| **Net decrease in net assets resulting from Unitholders' transactions** | (34,482) | (45,408) | (34,482) | (45,408) |
| **Unitholders' funds at end of the year** | 556,795 | 653,741 | 556,553 | 653,203 |

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

# Consolidated Portfolio Statement

As at 31 December 2016

**Group**

| **Description of property** | **Type** | **Leasehold term** |
|---|---|---|
| New Tech Park | High-tech industrial | 45 years with effect from ("wef") 26 November 2010 |
| 8 Commonwealth Lane | High-tech industrial | 30 years wef 1 February 2006(1) |
| Geo-Tele Centre | High-tech industrial | 30 years wef 1 June 1995(2) |
| Pantech 21* | High-tech industrial | 99 years wef 27 January 1984 |
| Frontech Centre | High-tech industrial | 99 years wef 1 January 1962 |
| 1 Tuas Avenue 4 | High-tech industrial | 30 years wef 1 January 1996(3) |
| BTH Centre | High-tech industrial | 30 years wef 16 September 2006(4) |
| 508 Chai Chee Lane | High-tech industrial | 30 years wef 16 April 2001(5) |
| Freight Links Express Logisticpark | Chemical warehouse & logistics | 30 years wef 16 February 1988(6) |
| 18 Gul Drive | Chemical warehouse & logistics | 13 years 10 months 12 days wef 1 November 2004(7) |
| Penjuru Logistics Hub | Warehouse & logistics | 30 years wef 16 August 2002 |
| Freight Links Express Logisticentre | Warehouse & logistics | 30 years wef 1 January 1995(2) |
| 26 Loyang Drive | Warehouse & logistics | 30 years wef 1 January 2006(8) |
| *Balance carried forward* | | |

| Location | Committed occupancy rate as at | | Carrying values as at | | % of total net assets as at | |
|---|---|---|---|---|---|---|
| | 31 December 2016 % | 31 December 2015 % | 31 December 2016 $'000 | 31 December 2015 $'000 | 31 December 2016 % | 31 December 2015 % |
| 151 Lorong Chuan | 88 | 87 | 316,000 | 339,500 | 56.8 | 51.8 |
| 8 Commonwealth Lane | 81 | 76 | 57,000 | 67,500 | 10.2 | 10.3 |
| 9 Tai Seng Drive | 100 | 100 | 41,000 | 45,300 | 7.4 | 6.9 |
| 200 Pandan Loop | – | 53 | – | 38,000[(10)] | – | 5.8 |
| 15 Jalan Kilang Barat | 92 | 78 | 23,000 | 24,000 | 4.1 | 3.7 |
| 1 Tuas Avenue 4 | 100 | 100 | 32,400 | 32,200 | 5.8 | 4.9 |
| 23 Serangoon North Avenue 5 | 31 | 55 | 41,000 | 48,100 | 7.4 | 7.4 |
| 508 Chai Chee Lane | 72 | 56 | 56,800 | 60,900 | 10.2 | 9.3 |
| 33 & 35 Penjuru Lane | 100 | 100 | 60,000 | 66,400 | 10.8 | 10.2 |
| 18 Gul Drive | 100 | 100 | 24,500 | 27,300 | 4.4 | 4.2 |
| 34 Penjuru Lane | 84 | 91 | 40,700 | 46,400 | 7.3 | 7.1 |
| 51 Penjuru Road | 100 | 100 | 46,800 | 47,800 | 8.4 | 7.3 |
| 26 Loyang Drive | 100 | 100 | 24,700 | 28,100 | 4.4 | 4.3 |
| | | | 763,900 | 871,500 | 137.2 | 133.2 |

# Consolidated Portfolio Statement (continued)
As at 31 December 2016

**Group (continued)**

| **Description of property** | **Type** | **Leasehold term** |
|---|---|---|
| *Balance brought forward* | | |
| Fong Tat Building* | Warehouse & logistics | 30 years wef 1 May 1995[(2)] |
| 218 Pandan Loop* | Warehouse & logistics | 30 years wef 16 September 1989[(2)] |
| 3A Joo Koon Circle | Warehouse & logistics | 30 years wef 1 August 1987[(2)] |
| 2 Toh Tuck Link | Warehouse & logistics | 30 years wef 16 December 1996[(2)] |
| 10 Changi South Street 2 | Warehouse & logistics | 30 years wef 1 October 1994[(9)] |
| Yenom Industrial Building | General industrial | 60 years wef 1 September 1981 |
| 30 & 32 Tuas Avenue 8 | General industrial | 30 years wef 1 September 1996[(2)] |
| 39 Ubi Road 1 | General industrial | 30 years wef 1 January 1992[(2)] |
| 21 Joo Koon Crescent | General industrial | 30 years wef 16 February 1994[(2)] |
| 6 Woodlands Loop | General industrial | 30 years wef 16 September 1994[(2)] |
| **Investment properties and investment properties held for divestment** | | |
| Other assets and liabilities (net) | | |
| **Net assets** | | |

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

| Location | Committed occupancy rate as at | | Carrying values as at | | % of total net assets as at | |
|---|---|---|---|---|---|---|
| | 31 December 2016 % | 31 December 2015 % | 31 December 2016 $'000 | 31 December 2015 $'000 | 31 December 2016 % | 31 December 2015 % |
| | | | 763,900 | 871,500 | 137.2 | 133.2 |
| 3 Kallang Way 2A | – | 100 | – | 16,600(10) | – | 2.5 |
| 218 Pandan Loop | – | – | 13,000(10) | 13,600 | 2.3 | 2.1 |
| 3A Joo Koon Circle | 100 | 100 | 39,000 | 41,000 | 7.0 | 6.3 |
| 2 Toh Tuck Link | 87 | 98 | 32,300 | 35,100 | 5.8 | 5.4 |
| 10 Changi South Street 2 | 100 | 100 | 52,100 | 52,800 | 9.4 | 8.0 |
| 123 Genting Lane | 79 | 84 | 18,200 | 18,700 | 3.3 | 2.9 |
| 30 & 32 Tuas Avenue 8 | 100 | 100 | 29,000 | 29,300 | 5.2 | 4.5 |
| 39 Ubi Road 1 | 63 | 100 | 23,000 | 33,200 | 4.1 | 5.1 |
| 21 Joo Koon Crescent | 100 | 100 | 19,000 | 18,700 | 3.4 | 2.9 |
| 6 Woodlands Loop | 100 | 100 | 14,100 | 14,300 | 2.5 | 2.2 |
| | | | 1,003,600 | 1,144,800 | 180.2 | 175.1 |
| | | | (446,805) | (491,059) | (80.2) | (75.1) |
| | | | 556,795 | 653,741 | 100.0 | 100.0 |

# Consolidated Portfolio Statement (continued)

As at 31 December 2016

**Group (continued)**

**As disclosed in the Statement of Financial Position:**

| | Carrying values as at 31 December 2016 $'000 | Carrying values as at 31 December 2015 $'000 |
|---|---|---|
| Investment properties – non-current | 990,600 | 1,090,200 |
| Investment properties held for divestment – current (denoted as * in the Consolidated Portfolio Statement) | 13,000 | 54,600 |
| | 1,003,600 | 1,144,800 |

(1) The Trust has an option to renew the land lease term for a further term of 23 years upon expiry.
(2) The Trust has an option to renew the land lease term for a further term of 30 years upon expiry.
(3) The Trust has an option to renew the land lease term for a further term of 21 years and 4 months upon expiry.
(4) The Trust has an option to renew the land lease term for a further term of 20 years and 15 days upon expiry.
(5) The Trust has an option to renew the land lease term for a further term of 29 years upon expiry.
(6) The Trust has an option to renew the land lease term for a further term of 31 years upon expiry.
(7) The Trust has an option to renew the land lease term for a further term of 20 years upon expiry.
(8) The Trust has an option to renew the land lease term for a further term of 18 years upon expiry.
(9) The Trust has an option to renew the land lease term for a further term of 27 years upon expiry.
(10) These properties were transferred to investment properties held for divestment, following the proposed divestment of the properties.

The carrying amounts of the investment properties as at 31 December 2016 were based on independent valuations undertaken by Colliers International Consultancy & Valuation (Singapore) Pte Ltd, Savills Valuation and Professional Services (S) Pte Ltd and Suntec Real Estate Consultants Pte Ltd (2015: Knight Frank Pte Ltd and DTZ Debenham Tie Leung (SEA) Pte Ltd). Valuations 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 Code on Collective Investment Schemes issued by the Monetary Authority of Singapore.

The carrying amount of the investment properties held for divestment as at 31 December 2016 were based on independent valuations undertaken by Suntec Real Estate Consultants Pte Ltd (2015: were based on their respective sale consideration to be received upon divestment).

Investment properties comprise properties used for the purpose of high-tech industrial, chemical warehouse and logistics, warehouse and logistics and general industrial use. Generally, the leases contain an initial non-cancellable period of three to ten years. Subsequent renewals are negotiated with the lessees. 9 Tai Seng Drive, 151 Lorong Chuan, 8 Commonwealth Lane, 123 Genting Lane, 508 Chai Chee Lane, 2 Toh Tuck Link, 23 Serangoon North Avenue 5, 34 Penjuru Lane, 15 Jalan Kilang Barat and 39 Ubi Road 1 are leased on individual lease agreements, 218 Pandan Loop is currently vacant, pending divestment, and the other investment properties are leased on master lease agreements.

# Consolidated Statement of Cash Flows

For the year ended 31 December 2016

| | Note | Group 2016 $'000 | Group 2015 $'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Total return for the year after taxation and before distribution | | (62,464) | (73,436) |
| Adjustments for: | | | |
| Amortisation of intangible assets | | – | 447 |
| Manager's fees paid/payable in Units | A(i) | 4,266 | 5,011 |
| Net change in fair value of financial derivatives | | 235 | (2,259) |
| Net change in fair value of investment properties | | 90,862 | 116,708 |
| Loss on exercise of put option on Convertible Sukuk by Sukukholders | | – | 648 |
| Loss on divestment of investment properties | | 558 | – |
| Net finance costs | | 20,796 | 21,418 |
| | | 54,253 | 68,537 |
| Change in trade and other receivables | | (2,235) | (1,039) |
| Change in trade and other payables | | (3,604) | 2,438 |
| Cash generated from operations | | 48,414 | 69,936 |
| Ta'widh (compensation on late payment of rent) received | | 263 | 65 |
| **Net cash from operating activities** | | 48,677 | 70,001 |
| | | | |
| **Cash flows from investing activities** | | | |
| Capital expenditure on investment properties | | (1,830) | (1,455) |
| Divestment of investment properties | | 54,600 | – |
| Profit income received from Islamic financial institutions | | 30 | 65 |
| **Net cash from/(used in) investing activities** | | 52,800 | (1,390) |
| | | | |
| **Cash flows from financing activities** | | | |
| Proceeds from borrowings | | 115,200 | 29,500 |
| Repayment of borrowings | | (159,900) | (29,750) |
| Issue expenses paid | | – | (40) |
| Transaction costs paid | | (1,244) | (446) |
| Finance costs paid | | (18,017) | (19,345) |
| Distributions paid | A(ii) | (38,748) | (50,379) |
| **Net cash used in financing activities** | | (102,709) | (70,460) |
| | | | |
| **Net decrease in cash and cash equivalents** | | (1,232) | (1,849) |
| Cash and cash equivalents at beginning of the year | | 10,438 | 12,287 |
| **Cash and cash equivalents at end of the year** | 8 | 9,206 | 10,438 |

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

# Consolidated Statement of Cash Flows (continued)

For the year ended 31 December 2016

*(A)* ***Significant Non-Cash Transaction**s*

There were the following significant non-cash transactions:

(i) 8,344,623 (2015: 6,232,961) Units, of which 5,764,396 (2015: 4,587,334) Units were issued and another 2,580,227 (2015: 1,645,627) Units will be issued to the Manager by the Trust, amounting to approximately $4,266,000 (2015: $5,011,000) at various Unit prices in satisfaction of Manager's fee payable in respect of the year ended 31 December 2016.

(ii) 1,811,131 Units amounting to approximately $1,628,000 (net of withholding tax) were issued by the Trust as part payment of distributions in respect of the period from 1 October 2014 to 30 September 2015, pursuant to the DRP. There was no DRP applied for the period from 1 October 2015 to 30 September 2016.

# Notes to the Financial Statements

For the year ended 31 December 2016

These notes form an integral part of the financial statements.

The financial statements were authorised for issue by the Manager and the Trustee on 15 March 2017.

## 1 GENERAL

Sabana Shari'ah Compliant Industrial Real Estate Investment Trust (the "Trust") is a Singapore-domiciled unit trust constituted pursuant to the trust deed dated 29 October 2010 (as amended by the First Supplemental Deed dated 2 December 2010, the First Amending and Restating Deed dated 24 February 2016 and the Second Amending and Restating Deed dated 24 March 2016) (collectively, the "Trust Deed") between Sabana Real Estate Investment Management Pte. Ltd. (the "Manager") and HSBC Institutional Trust Services (Singapore) 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 or through its subsidiaries (collectively, the "Group") in trust for the holders ("Unitholders") of units in the Trust (the "Units").

The Trust was a dormant private trust from the date of constitution until its acquisition of properties on 26 November 2010. It was formally admitted to the Official List of the Singapore Exchange Securities Trading Limited (the "SGX-ST") on 26 November 2010 and was included in the Central Provident Fund ("CPF") Investment Scheme on 26 November 2010.

The financial statements of the Group as at and for the year ended 31 December 2016 comprise the Trust and its subsidiaries (together referred to as the "Group" and individually as "Group entities").

The principal activity of the Trust is to invest in income producing real estate used for industrial purposes in Asia, as well as real estate-related outlets, in line with Shari'ah investment principles. The principal activities of the subsidiaries are set out on Note 6 of the financial statements.

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

### 1.1 Property Manager's fees

The Property Manager is entitled under the Property Management Agreement to the following management fees on each property of the Group located in Singapore under its management:

- a property management fee of 2.0% per annum of gross revenue of each property; and

- a lease management fee of 1.0% per annum of gross revenue of each property.

The property management fee and the lease management fee are payable to the Property Manager in the form of cash.

# Notes to the Financial Statements

For the year ended 31 December 2016

## 1 GENERAL (CONTINUED)

### 1.2 Manager's fees

Pursuant to the Trust Deed, the Manager is entitled to the following manager's fees:

- a base fee not exceeding the rate of 0.5% per annum of the value of the gross assets of the Group ("Deposited Property"); and

- a performance fee equal to 0.5% per annum (or such lower percentage as may be determined by the Manager in its absolute discretion) of the Group's Net Property Income in the relevant financial year, provided that the Group achieves an annual growth in distribution per Unit ("DPU") of at least 10.0% over the previous financial year (calculated after accounting for the performance fee (if any) for that financial year and after adjusting, at the discretion of the Manager, for any new Units arising from the conversion or exercise of any instruments convertible into Units which are outstanding at the time of calculation, and any rights or bonus issue, consolidation, subdivision or buy-back of Units).

The Manager may, at its sole discretion, elect to receive the base fee and performance fee in cash or Units or a combination of cash and Units.

### 1.3 Trustee's fees

Pursuant to the Trust Deed, the Trustee's fee shall not exceed 0.25% per annum of the value of the Deposited Property (subject to a minimum of $25,000 per month), excluding out-of-pocket expenses and goods and services tax ("GST").

The actual fee payable will be determined between the Manager and the Trustee from time to time.

### 1.4 Acquisition fees

Pursuant to the Trust Deed, the Manager is entitled to acquisition fees of 1.0% (or such lower percentage as may be determined by the Manager), of each of the following:

- the acquisition price of any real estate purchased, whether directly or indirectly through one or more Special Purpose Vehicles ("SPVs") by the Trust;

- the underlying value of any real estate which is taken into account when computing the acquisition price payable for the equity interests of any holding directly or indirectly the real estate, purchased whether directly or indirectly through one or more SPVs, by the Trust; and

- the acquisition price of any investment purchased by the Trust, whether directly or indirectly through one or more SPVs, in any debt securities in any property corporation or other SPV owning or acquiring real estate or any debt securities which are secured directly or indirectly by the rental income from real estate.

# Notes to the Financial Statements

For the year ended 31 December 2016

## 1 GENERAL (CONTINUED)

### 1.4 Acquisition fees (continued)

The Manager may, at its sole discretion, elect to receive the acquisition fee in cash or Units or a combination of cash and Units. In respect of any acquisition of real estate assets from interested parties, such a fee should be in the form of Units issued by the Trust. Such Units should not be sold within one year from the date of their issuance.

### 1.5 Divestment fees

Pursuant to the Trust Deed, the Manager is entitled to divestment fees of 0.5% (or such lower percentage as may be determined by the Manager) of each of the following:

- the sale price of real estate sold or divested, whether directly or indirectly through one or more SPVs by the Trust;
- the underlying value of any real estate which is taken into account when computing the sale price for the equity interests of any holding directly or indirectly the real estate, divested whether directly or indirectly through one or more SPVs, by the Trust; and
- the sale price of any investment sold by the Trust, whether directly or indirectly through one or more SPVs, in any debt securities in any property corporation or other SPV owning or acquiring real estate or any debt securities which are secured directly or indirectly by the rental income from real estate.

The Manager may, at its sole discretion, elect to receive the divestment fee in cash or Units or a combination of cash and Units. In respect of any divestment of real estate assets to interested parties, such a fee should be in the form of Units issued by the Trust. Such Units should not be sold within one year from the date of their issuance.

## 2 BASIS OF PREPARATION

### 2.1 Statement of compliance

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

# Notes to the Financial Statements

For the year ended 31 December 2016

## 2 BASIS OF PREPARATION (CONTINUED)

### 2.2 Basis of measurement

The financial statements have been prepared on a historical cost basis except for the investment properties and financial derivatives which are stated at fair value as set out in the accounting policies described below.

### 2.3 Functional and presentation currency

These financial statements are presented in Singapore dollars which is the Trust's functional currency. All financial information presented in Singapore dollars have been rounded to the nearest thousand, unless otherwise stated.

### 2.4 Use of estimates and judgements

The preparation of the financial statements in conformity with RAP 7 (2012) requires the Manager to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

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

In particular, information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are included in the following notes:

- Note 4 – valuation of investment properties
- Note 24 – valuation of financial instruments

## 3 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these financial statements, and have been applied consistently by Group entities.

# Notes to the Financial Statements

For the year ended 31 December 2016

## 3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 3.1 Basis of consolidation

***(i) Business combinations***

Business combinations are accounted for using the acquisition method in accordance with FRS 103 *Business Combinations* as at the acquisition date, which is the date on which control is transferred to the Group.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in the Statement of Total Return.

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

***(ii) Subsidiaries***

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

***(iii) Loss of control***

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 surplus or deficit arising on the loss of control is recognised in the Statement of Total Return. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently, it is accounted for as an equity-accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

***(iv) Transactions eliminated on consolidation***

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

***(v) Subsidiaries in the separate financial statements***

Investments in subsidiaries are stated in the Trust's Statement of Financial Position at cost less accumulated impairment losses.

# Notes to the Financial Statements

For the year ended 31 December 2016

## 3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 3.2 Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of the Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the year, adjusted for effective profit rate and payments during the year, and the amortised cost in foreign currency translated at the exchange rate at the end of the year.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured in terms of historical cost are translated using the exchange rate at the date of the transaction. Foreign currency differences arising on translation are recognised in the Statement of Total Return, except for differences arising on the translation of monetary items that in substance form part of the Group's net investment in a foreign operation.

### 3.3 Investment properties

Investment properties are properties held either to earn rental income or capital appreciation or both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes.

Investment properties are measured at cost at initial recognition and subsequently at fair value with any changes therein recognised in the Statement of Total Return.

Fair value is determined in accordance with the Trust Deed, which requires the investment properties to be valued by independent registered valuers in such manner and frequency required under Appendix 6 of the CIS Code issued by the MAS ("Property Funds Appendix").

Fair value changes are recognised in the Statement of Total Return. When an investment property is disposed of, the resulting gain or loss is recognised in the Statement of Total Return as the difference between net disposal proceeds and the carrying amount of the property.

Subsequent expenditure relating to investment properties that have already been recognised is added to the carrying amount of the assets when it is probable that future economic benefits, in excess of originally assessed standard of performance of the existing asset, will flow to the Group. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.

Investment properties are not depreciated. The properties are subject to continuing maintenance and are regularly revalued on the basis described above. For taxation purpose, the Group may claim capital allowances on assets that qualify as plant and machinery under the Singapore Income Tax Act.

# Notes to the Financial Statements

For the year ended 31 December 2016

## 3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 3.4 Non-current assets held for sale

Non-current assets comprising assets and liabilities, that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. Immediately before classification as held for sale, the assets and liabilities are measured in accordance with applicable FRSs. Thereafter, the assets or disposal group, are generally measured at the lower of their carrying amount and fair value less costs to sell except for non-current assets that are accounted for in accordance with the fair value model in FRS 40 *Investment Property*.

Impairment losses on initial classification as held for sale and subsequent gains or losses on remeasurement are recognised in the Statement of Total Return. Gains are not recognised in excess of any cumulative impairment loss.

Non-current assets held for sale comprise investment properties held for divestment.

### 3.5 Intangible assets

Intangible assets represent the unamortised income support receivable by the Group in accordance with the purchase agreements, entered into with the vendors of 9 Tai Seng Drive and 6 Woodlands Loop.

These intangible assets have finite useful lives and are measured at cost less accumulated amortisation and accumulated impairment losses.

These intangible assets are amortised in the Statement of Total Return on a systematic basis over their estimated useful lives of 3 years to 5 years. Intangible assets are tested for impairment as described in Note 3.7.

### 3.6 Financial instruments

#### *(i) Non-derivative financial assets*

The Group initially recognises loans and receivables on the date that they are originated. All other financial assets are recognised initially on the trade date, which is the date that the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred, or it neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain control over the transferred asset. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

# Notes to the Financial Statements

For the year ended 31 December 2016

## 3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 3.6 Financial instruments (continued)

#### *(i) Non-derivative financial assets (continued)*

Financial assets and liabilities are offset and the net amount presented in the Statement 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.

The Group has the following non-derivative financial assets: loans and receivables.

*Loans and receivables*

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective profit rate method, less any impairment losses.

Loans and receivables comprise cash and cash equivalents and trade and other receivables.

Cash and cash equivalents comprise cash at bank and short-term deposits with financial institutions that are subject to an insignificant risk of changes in their fair value.

#### *(ii) Non-derivative financial liabilities*

The Group initially recognises debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities are initially recognised on the trade date, which is the date that the Group becomes a party to the contractual provisions of the instrument.

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

Financial assets and liabilities are offset and the net amount presented in the Statement 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.

The Group classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective profit rate method.

Other financial liabilities comprise borrowings and trade and other payables.

# Notes to the Financial Statements

For the year ended 31 December 2016

## 3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 3.6 Financial instruments (continued)

***(iii) Derivative financial instruments***

The Group holds derivative financial instruments to economically hedge its profit rate risk exposure.

Derivatives are recognised initially at fair value; any attributable transaction costs are recognised in the Statement of Total Return as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below.

*Separable embedded derivatives*

Changes in the fair value of separated embedded derivatives are recognised immediately in the Statement of Total Return.

*Other non-trading derivatives*

Changes in the fair value of the derivative hedging instruments that do not qualify for hedge accounting are recognised immediately in the Statement of Total Return.

***(iv) Convertible Sukuk***

The Convertible Sukuk comprises a liability for the profit expense and principal amount and an embedded derivative liability. The embedded derivative liability is recognised at fair value at inception. The carrying amount of the Convertible Sukuk at initial recognition is the difference between the gross proceeds from the Convertible Sukuk and the fair value of the embedded derivative liability. Any directly attributable transaction costs are allocated to the debt component of the Convertible Sukuk and embedded derivative liability in proportion to their initial carrying amounts.

Subsequent to initial recognition, the debt component of the Convertible Sukuk is measured at amortised cost using the effective profit rate method. The embedded derivative liability is measured at fair value through the Statement of Total Return.

# Notes to the Financial Statements

For the year ended 31 December 2016

## 3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 3.7 Impairment

***(i) Non-derivative financial assets***

A financial asset not carried at fair value through Statement of Total Return is assessed at the end of each reporting period to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event has a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers in the Group, economic conditions that correlate with defaults or the disappearance of an active market for a security.

*Loans and receivables*

The Group considers evidence of impairment for loans and receivables at both a specific asset and collective level. All individually significant loans and receivables are assessed for specific impairment.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows, discounted at the asset's original effective profit rate. Losses are recognised in the Statement of Total Return and reflected in an allowance account against loans and receivables. Profit income on the impaired asset continues to be recognised. When the Group considers that there are no realistic prospects of recovery of the asset, the relevant amounts are written off. If the amount of impairment loss subsequently decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, then the previously recognised impairment loss is reversed through the Statement of Total Return.

***(ii) Non-financial assets***

The carrying amounts of the Group's non-financial assets, other than investment properties, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit (CGU) exceeds its estimated recoverable amount.

# Notes to the Financial Statements

For the year ended 31 December 2016

## 3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 3.7 Impairment (continued)

***(ii) Non-financial assets (continued)***

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

Impairment losses are recognised in the Statement of Total Return. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (group of CGUs), and then to reduce the carrying amounts of the other assets in the CGU (group of CGUs) on a pro rata basis.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

### 3.8 Issue expenses

Issue expenses relate to expenses incurred in connection with the issue of Units. Such expenses are deducted directly against Unitholders' funds.

### 3.9 Revenue recognition

***Rental income from operating leases***

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

# Notes to the Financial Statements

For the year ended 31 December 2016

## 3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 3.10 Expenses

***(i) Property expenses***

Included in property expenses are property management fee and lease management fee under the Property Manager Agreement, which are based on the applicable formula stipulated in Note 1.1, reimbursable expenses payable to the Property Manager and other property expenses in relation to the investment properties.

Property expenses are recognised as and when incurred and recorded on an accrual basis.

***(ii) Manager's fees***

Manager's fees are recognised as and when services are rendered and recorded on an accrual basis using the applicable formula stipulated in Note 1.2.

***(iii) Trustee's fees***

Trustee's fees are recognised as and when services are rendered and recorded on an accrual basis using the applicable formula stipulated in Note 1.3.

### 3.11 Finance income and finance costs

Finance income comprises mainly profit income. Profit income is recognised as it accrues in the Statement of Total Return using the effective profit rate method.

Finance costs comprise profit expense on borrowings and profit rate swaps, amortisation of transaction costs incurred on borrowings and brokerage and agent fees. All borrowing costs are recognised in the Statement of Total Return using the effective profit rate method.

### 3.12 Tax

Tax expense comprises current and deferred tax. Current and deferred tax is recognised in the Statement of Total Return except to the extent that it relates to a business combination, or items directly related to Unitholders' funds, in which case it is recognised in Unitholders' funds.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

# Notes to the Financial Statements

For the year ended 31 December 2016

## 3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 3.12 Tax (continued)

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit; and

- temporary differences related to investments in subsidiaries to the extent that the Group is able to control the timing of the reversal of the temporary difference and it is probable that they will not reverse in the foreseeable future.

The measurement of deferred taxes reflects the tax consequences that would follow the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. For investment property that is measured at fair value, the presumption that the carrying amount of the investment property will be recovered through sale has not been rebutted. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

# Notes to the Financial Statements

For the year ended 31 December 2016

## 3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 3.12 Tax (continued)

The Inland Revenue Authority of Singapore ("IRAS") had issued a tax ruling on the taxation of the Trust for income earned and expenditure incurred after its listing on the SGX-ST. Subject to meeting the terms and conditions of the tax ruling issued by IRAS, the Trustee is not subject to tax on the taxable income of the Trust, which includes profit distributions from liquid Islamic debt securities such as Sukuk that the Trust may invest in, provided that at least 90% of the taxable income of the Trust is distributed within the year in which the income is derived (the "tax transparency treatment"). Instead, the Trustee and the Manager will deduct income tax at the prevailing corporate tax rate (currently 17%) from the distributions made to Unitholders that are made out of the taxable income of the Trust, except:

(i) where the beneficial owners are individuals (whether resident or non-resident) who receive such distributions as investment income (excluding income received through a partnership) or Qualifying Unitholders, the Trustee and the Manager will make the distributions to such Unitholders without deducting any income tax; or

(ii) where the beneficial owners are Qualifying Foreign Non-Individual Unitholders, the Trustee and the Manager will deduct Singapore income tax at the reduced rate of 10% for distributions made up to 31 March 2020, unless concession is extended.

A Qualifying Unitholder is a Unitholder who is:

- A Singapore-incorporated company which is a tax resident in Singapore;
- A body of persons, other than a company or a partnership, registered or constituted 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); and
- 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 the Trust.

# Notes to the Financial Statements

For the year ended 31 December 2016

## 3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 3.12 Tax (continued)

A Qualifying Foreign Non-Individual Unitholder is one which is not 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 to acquire the Units are not obtained from that operation in Singapore.

The above tax transparency ruling does not apply to gains or profits from sale of real estate properties, if considered to be trading gains derived from a trade or business carried on by the Trust. Tax on such gains or profits will be assessed, in accordance with section 10(1)(a) of the Income Tax Act, Chapter 134 of Singapore and collected from the Trustee. Where the gains or profits are capital gains, they are not subject to tax and the Trustee and the Manager may distribute the capital gains without tax being deducted at source.

### 3.13 Earnings per Unit

The Group presents basic and diluted earnings per Unit ("EPU") data for its Units. Basic EPU is calculated by dividing the total return attributable to Unitholders of the Group by the weighted average number of ordinary Units outstanding during the year. Diluted EPU is determined by adjusting the total return attributable to Unitholders and the weighted average number of Units outstanding for the effects of all dilutive potential Units.

### 3.14 Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the Manager's CEO (the chief operating decision maker) to make decisions about resources to be allocated to the segment and to assess its performance, and for which discrete financial information is available.

Segment results that are reported to the Manager's CEO include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

# Notes to the Financial Statements

For the year ended 31 December 2016

## 3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 3.15 New standards and interpretations not adopted

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2016 and earlier application is permitted; however, the Group has not early applied the following new or amended standards in preparing these statements.

**Applicable to financial statements for the year ending 31 December 2017**

**Revision to RAP 7**

RAP 7 was revised in June 2016 ("Revised RAP 7") to take into account, amongst others, the changes made to FRS 32 *Financial Instruments: Presentation* and FRS 107 *Financial Instruments: Disclosures* in relation to the offsetting of financial assets and liabilities; and new standards issued after 2012 including FRS 110 *Consolidated Financial Statements*, FRS 112 *Disclosure of Interest in Other Entities* and FRS 113 *Fair Value Measurement*. Revised RAP 7 is applicable to unit trusts with annual periods beginning on or after 1 July 2016. Certain additional disclosures would be required by the Revised RAP 7.

**Applicable to financial statements for the year ending 31 December 2018**

**FRS 115 *Revenue from Contracts with Customers***

FRS 115 *Revenue from Contracts with Customers* establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It also introduces new cost guidance which requires certain costs of obtaining and fulfilling contracts to be recognised as separate assets when specified criteria are met.

When effective, FRS 115 *Revenue from Contracts with Customers* replaces existing revenue recognition guidance, including FRS 18 *Revenue*, FRS 11 *Construction Contracts*, INT FRS 113 *Customer Loyalty Programmes*, INT FRS 115 *Agreements for the Construction of Real Estate*, INT FRS 118 *Transfers of Assets from Customers* and INT FRS 31 *Revenue – Barter Transactions Involving Advertising Services*.

FRS 115 *Revenue from Contracts with Customers* is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. FRS 115 *Revenue from Contracts with Customers* offers a range of transition options including full retrospective adoption where an entity can choose to apply the standard to its historical transactions and retrospectively adjust each comparative period presented in its financial statements for the year ending 31 December 2018. When applying the full retrospective method, an entity may also elect to use a series of practical expedients to ease transition.

**Potential impact on the financial statements**

The Group does not expect the impact on the financial statements to be significant. Certain additional disclosures would be required by FRS 115 *Revenue from Contracts with Customers*.

# Notes to the Financial Statements

For the year ended 31 December 2016

## 3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 3.15 New standards and interpretations not adopted (continued)

**Applicable to financial statements for the year ending 31 December 2018 (continued)**

**FRS 109 *Financial Instruments***

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

FRS 109 *Financial Instruments* is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. Retrospective application is generally required, except for hedge accounting. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions. Restatement of comparative information is not mandatory. If comparative information is not restated, the cumulative effect is recorded in opening equity as at 1 January 2018.

**Potential impact on the financial statements**

Overall, the Group does not expect a significant impact on its opening Unitholders' funds. The Group's initial assessment of the three elements of FRS 109 *Financial Instruments* is as described below.

**Classification and measurement**

The Group does not expect a significant change to the measurement basis arising from adopting the new classification and measurement model under FRS 109 *Financial Instruments*.

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

For derivative instruments currently held at fair value, the Group expects to continue measuring most of these derivative instruments at fair value under FRS 109 *Financial Instruments*.

# Notes to the Financial Statements
For the year ended 31 December 2016

## 3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 3.15 New standards and interpretations not adopted (continued)

**Applicable to financial statements for the year ending 31 December 2018 (continued)**

**FRS 109 *Financial Instruments (continued)***

**Impairment**

The Group plans to apply the simplified approach and record lifetime expected impairment losses on all trade receivables. On adoption of FRS 109 *Financial Instruments*, the Group does not expect a significant increase in the impairment loss allowance.

**Transition**

The Group plans to adopt the standard when it becomes effective for the year ending 31 December 2018 without restating comparative information; and is gathering data to quantifying the potential impact arising from the adoption.

**Applicable to financial statements for the year ending 31 December 2019**

**FRS 116 *Leases***

FRS 116 *Leases* eliminates the lessee's classification of leases as either operating leases or finance leases and introduces a single lessee accounting model. Applying the new model, a lessee is required to recognise right-of-use ("ROU") assets and lease liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value.

FRS 116 *Leases* substantially carries forward the lessor accounting requirements in FRS 17 *Leases*. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for these two types of leases using the FRS 17 *Leases* operating lease and finance lease accounting models respectively. However, FRS 116 *Leases* requires more extensive disclosures to be provided by a lessor. When effective, FRS 116 *Leases* 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*.

FRS 116 *Leases* is effective for annual periods beginning on or after 1 January 2019, with early adoption permitted if FRS 115 *Revenue from Contracts with Customers* is also applied.

# Notes to the Financial Statements

For the year ended 31 December 2016

## 3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 3.15 New standards and interpretations not adopted (continued)

**Applicable to financial statements for the year ending 31 December 2019 (continued)**

**FRS 116 *Leases* (continued)**

***Potential impact on the financial statements***

The Group has performed a preliminary high-level assessment of the new standard on its existing operating lease arrangements as a lessee. Based on the preliminary assessment, the Group expects these operating leases to be recognized as ROU assets with corresponding lease liabilities under the new standard.

The Group plans to adopt the standard when it becomes effective for the year ending 31 December 2019. The Group will perform a detailed analysis of the standard, including the transition options and practical expedients in 2017.

## 4 INVESTMENT PROPERTIES AND INVESTMENT PROPERTIES HELD FOR DIVESTMENT

***Investment properties***

| | Group and Trust | |
|---|---|---|
| | 2016 | 2015 |
| | $'000 | $'000 |
| At 1 January | 1,090,200 | 1,260,053 |
| Transfer to investment properties held for divestment | (13,000) | (54,600) |
| Capital expenditure on investment properties | 1,830 | 1,455 |
| Net change in fair value of investment properties* | (88,430) | (116,708) |
| At 31 December | 990,600 | 1,090,200 |

* The fair value loss of $88.4 million (2015: $116.7 million), together with an adjustment of $2.5 million (2015: $Nil) to recognise rental income on a straight line basis in accordance with FRS 17 *Leases*, aggregated to $90.9 million (2015: $116.7 million) as disclosed in the Statement of Total Return.

***Investment properties held for divestment***

An investment property (2015: Two investment properties) with carrying values of $13,000,000 (2015: $54,600,000) as at 31 December 2016 were transferred to investment properties held for divestment, following the proposed divestment to third parties.

# Notes to the Financial Statements

For the year ended 31 December 2016

## 4 INVESTMENT PROPERTIES AND INVESTMENT PROPERTIES HELD FOR DIVESTMENT (CONTINUED)

***Security***

As at 31 December 2016, investment properties of the Group and the Trust with an aggregate carrying values of $672,100,000 (2015: $767,400,000) have been pledged as security to secure certain borrowing facilities (see Note 10).

***Measurement of fair value***

*Investment properties*

Investment properties are stated at fair value based on valuations performed by independent professional valuers having appropriate recognised professional qualifications and recent experience in the location and category of property being valued. The fair values are based on open market values, being the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and willing seller in an arm's length transaction wherein the parties had each acted knowledgeably, prudently and without compulsion.

In determining the fair value, the valuers have used valuation techniques which involve certain estimates. In relying on the valuation reports, the Manager has exercised its judgement and is satisfied that the valuation methods and estimates are reflective of current market conditions. The valuation reports are prepared in accordance with recognised appraisal and valuation standards. The estimates underlying the valuation techniques in the next financial year may differ from current estimates, which may result in valuations that may be materially different from the valuations as at the reporting date.

The valuers have considered the capitalisation approach, discounted cash flow method and direct comparison method in arriving at the open market value as at the reporting date. The capitalisation approach capitalises an income stream into a present value using single-year capitalisation rates. The income stream used is adjusted to market rentals currently being achieved within comparable investment properties and recent leasing transactions achieved within the investment properties. The discounted cash flow method involves the estimation and projection of an income stream over a period and discounting the income stream with an internal rate of return ("Discount Rate") to arrive at the market value. The discounted cash flow method requires the valuers to assume a rental growth rate indicative of market and the selection of a Discount Rate consistent with current market requirements. The direct comparison method considered transacted prices of comparable properties.

*Investment properties held for divestment*

Investment properties held for divestment are stated at fair value based on valuations performed by independent professional valuers. In 2015, investment properties held for divestment are stated at fair value based on sale consideration agreed with third parties.

# Notes to the Financial Statements

For the year ended 31 December 2016

## 4 INVESTMENT PROPERTIES AND INVESTMENT PROPERTIES HELD FOR DIVESTMENT (CONTINUED)

***Fair value hierarchy***

The table below analyses investment properties and investment properties held for divestment carried at fair value. The different levels have been defined as follows:

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

| | Note | Level 2 $'000 | Level 3 $'000 | Total $'000 |
|---|---|---|---|---|
| **Group and Trust** | | | | |
| **2016** | | | | |
| Investment properties | | – | 990,660 | 990,660 |
| Investment properties held for divestment | | – | 13,000 | 13,000 |
| **2015** | | | | |
| Investment properties | | – | 1,090,200 | 1,090,200 |
| Investment properties held for divestment | (a) | 54,600 | – | 54,600 |

***(a) Transfers out of Level 3***

In 2015, 200 Pandan Loop and 3 Kallang Way 2A, following the proposed divestment of these investment properties held for divestment, were based on their respective sale consideration to be received upon divestment. The fair value of these investment properties held for divestment were therefore reclassified to Level 2.

During the year ended 31 December 2016, there were no transfers from Level 1, Level 2 or Level 3, or vice versa.

# Notes to the Financial Statements

For the year ended 31 December 2016

## 4 INVESTMENT PROPERTIES AND INVESTMENT PROPERTIES HELD FOR DIVESTMENT (CONTINUED)

***Fair value hierarchy (continued)***

The following table shows the key unobservable inputs used in the valuation models for investment properties:

| **Type** | **Key unobservable inputs** | **Inter-relationship between key unobservable inputs and fair value measurement** |
|---|---|---|
| Industrial properties for leasing | • Discount rates (from 7.00% to 8.00% (2015: 7.50% to 8.25%))<br>• Capitalisation rates (from 5.50% to 7.00% (2015: 6.25% to 7.00%))<br>• Terminal yield (From 6.00% to 7.50% (2015: 6.50% to 7.25%)) | The estimated fair value of investment properties would increase if the discount rates, capitalisation rates and terminal yield were lower. |

## 5 INTANGIBLE ASSETS

| | **Total** **$'000** |
|---|---|
| **Group and Trust** | |
| **Cost** | |
| At 1 January 2015 | 6,057 |
| Written off | (6,057) |
| At 31 December 2015 and at 31 December 2016 | – |
| | |
| **Accumulated amortisation** | |
| At 1 January 2015 | 5,610 |
| Amortisation for the year | 447 |
| Written off | (6,057) |
| At 31 December 2015 and at 31 December 2016 | – |
| | |
| **Carrying amounts** | |
| At 1 January 2015 | 447 |
| At 31 December 2015 and at 31 December 2016 | – |

Intangible assets represent the unamortised income support receivable by the Group and the Trust in accordance with the purchase agreements entered into with the vendors of 9 Tai Seng Drive and 6 Woodlands Loop. As at 31 December 2015, the income support receivable under these agreements have been fully drawn down.

# Notes to the Financial Statements

For the year ended 31 December 2016

## 6 SUBSIDIARIES

| | Trust 2016 $'000 | Trust 2015 $'000 |
|---|---|---|
| Equity investments at cost | * | * |

* Less than $1,000

Details of the subsidiaries of the Group are as follows:

| Name of subsidiary | Principal activities | Country of incorporation | Effective equity interest held by the Group 2016 | 2015 |
|---|---|---|---|---|
| Sabana Treasury Pte. Ltd.[1] | Provision of treasury services | Singapore | 100% | 100% |
| Sabana Sukuk Pte. Ltd.[1] | Provision of treasury services | Singapore | 100% | 100% |

(1) Audited by KPMG LLP Singapore

## 7 TRADE AND OTHER RECEIVABLES

| | Group 2016 $'000 | Group 2015 $'000 | Trust 2016 $'000 | Trust 2015 $'000 |
|---|---|---|---|---|
| Trade receivables, gross | 5,337 | 1,527 | 5,337 | 1,527 |
| Impairment losses on trade receivables | (2,373) | (20) | (2,373) | (20) |
| Trade receivables, net | 2,964 | 1,507 | 2,964 | 1,507 |
| | | | | |
| Other receivables, gross | 4,739 | 7,006 | 4,739 | 7,006 |
| Impairment losses on other receivables | (63) | (63) | (63) | (63) |
| Other receivables, net | 4,676 | 6,943 | 4,676 | 6,943 |
| | | | | |
| Deposits | 1,782 | 1,098 | 1,782 | 1,098 |
| | 9,422 | 9,548 | 9,422 | 9,548 |
| Prepayments | 139 | 210 | 131 | 202 |
| | 9,561 | 9,758 | 9,553 | 9,750 |

The Group's and the Trust's exposure to credit risk related to trade and other receivables, excluding prepayments, are disclosed in Note 15.

# Notes to the Financial Statements

For the year ended 31 December 2016

## 8 CASH AND CASH EQUIVALENTS

| | Group 2016 $'000 | Group 2015 $'000 | Trust 2016 $'000 | Trust 2015 $'000 |
|---|---|---|---|---|
| Bank balances | 2,726 | 2,768 | 2,721 | 2,762 |
| Fixed deposits | 6,480 | 7,670 | 6,480 | 7,670 |
| | 9,206 | 10,438 | 9,201 | 10,432 |

The weighted average effective profit rate relating to cash and cash equivalents at the reporting date for the Group and the Trust is 0.45% (2015: 0.95%) per annum.

## 9 TRADE AND OTHER PAYABLES

| | Group 2016 $'000 | Group 2015 $'000 | Trust 2016 $'000 | Trust 2015 $'000 |
|---|---|---|---|---|
| Amount due to related parties, trade | 565 | 634 | 581 | 645 |
| Trade payables | 1,277 | 1,452 | 1,277 | 1,452 |
| Security deposits | 16,779 | 19,084 | 16,779 | 19,084 |
| Rental received in advance | 215 | 657 | 215 | 657 |
| Retention sums | 754 | 769 | 754 | 769 |
| Finance costs payable to: | | | | |
| - non-related parties | 3,560 | 3,449 | 986 | 880 |
| - subsidiaries | – | – | 2,574 | 2,568 |
| Accrued operating expenses | 2,652 | 2,432 | 2,652 | 2,432 |
| Others | 1,806 | 1,889 | 1,788 | 1,872 |
| | 27,608 | 30,366 | 27,606 | 30,359 |
| | | | | |
| Current | 14,097 | 14,438 | 14,095 | 14,431 |
| Non-current | 13,511 | 15,928 | 13,511 | 15,928 |
| | 27,608 | 30,366 | 27,606 | 30,359 |

Outstanding balances with related parties are unsecured.

The Group's and the Trust's exposure to liquidity risk related to trade and other payables are disclosed in Note 15.

# Notes to the Financial Statements

For the year ended 31 December 2016

## 10 BORROWINGS

| | Note | Group 2016 $'000 | Group 2015 $'000 | Trust 2016 $'000 | Trust 2015 $'000 |
|---|---|---|---|---|---|
| **Secured borrowings** | | | | | |
| Commodity Murabaha Facilities | | | | | |
| - Term | 10(a) | 195,000 | 195,000 | 195,000 | 195,000 |
| - Revolving | 10(a) | 13,300 | 30,000 | 13,300 | 30,000 |
| Revolving Murabahah Facility | 10(b) | – | 28,000 | – | 28,000 |
| Less: Unamortised capitalised transaction costs | | (1,962) | (2,612) | (1,962) | (2,612) |
| | | 206,338 | 250,388 | 206,338 | 250,388 |
| **Unsecured borrowings** | | | | | |
| Convertible Sukuk – debt component | 11 | 42,395 | 41,933 | – | – |
| Trust Certificates | 10(c) | 190,000 | 190,000 | – | – |
| Loans from subsidiaries | 10(d) | – | – | 232,750 | 232,750 |
| Less: Unamortised capitalised transaction costs | | (809) | (1,237) | (933) | (1,521) |
| | | 189,191 | 188,763 | 231,817 | 231,229 |
| | | 437,924 | 481,084 | 438,155 | 481,617 |
| Current | | 130,209 | 147,288 | 130,440 | 147,288 |
| Non-current | | 307,715 | 333,796 | 307,715 | 334,329 |
| | | 437,924 | 481,084 | 438,155 | 481,617 |

# Notes to the Financial Statements

For the year ended 31 December 2016

## 10 BORROWINGS (CONTINUED)

***Terms and borrowings repayment schedule***

Terms and conditions of outstanding borrowings are as follows:

| | Currency | Nominal profit rate % | Year of maturity | Face value $'000 | Carrying amount $'000 |
|---|---|---|---|---|---|
| **Group** | | | | | |
| **2016** | | | | | |
| Term Commodity Murabaha Facility F | SGD | *SOR+Margin | 2017 | 75,000 | 74,514 |
| Term Commodity Murabaha Facility C | SGD | *SOR+Margin | 2019 | 30,000 | 29,480 |
| Term Commodity Murabaha Facility B (2020) | SGD | *SOR+Margin | 2020 | 90,000 | 89,044 |
| Revolving Commodity Murabaha Facility D (2020) | SGD | *SOR+Margin | 2020 | 13,300 | 13,300 |
| Convertible Sukuk – Debt Component | SGD | 4.50% | 2017 | 42,750 | 42,395 |
| Trust Certificate Series 1 | SGD | 4.00% | 2018 | 90,000 | 89,753 |
| Trust Certificate Series 2 | SGD | 4.25% | 2019 | 100,000 | 99,438 |
| | | | | 441,050 | 437,924 |
| **2015** | | | | | |
| Term Commodity Murabaha Facility B (2016) | SGD | *SOR+Margin | 2016 | 90,000 | 89,688 |
| Revolving Commodity Murabaha Facility D (2016) | SGD | *SOR+Margin | 2016 | 30,000 | 30,000 |
| Term Commodity Murabaha Facility F | SGD | *SOR+Margin | 2017 | 75,000 | 73,787 |
| Term Commodity Murabaha Facility C | SGD | *SOR+Margin | 2019 | 30,000 | 29,313 |
| Revolving Murabahah Facility | SGD | *SOR+Margin | 2018 | 28,000 | 27,600 |
| Convertible Sukuk – Debt Component | SGD | 4.50% | 2017 | 42,750 | 41,933 |
| Trust Certificate Series 1 | SGD | 4.00% | 2018 | 90,000 | 89,558 |
| Trust Certificate Series 2 | SGD | 4.25% | 2019 | 100,000 | 99,205 |
| | | | | 485,750 | 481,084 |

* Swap Offer Rate

# Notes to the Financial Statements

For the year ended 31 December 2016

## 10 BORROWINGS (CONTINUED)

***Terms and borrowings repayment schedule (continued)***

| | Currency | Nominal profit rate % | Year of maturity | Face value $'000 | Carrying amount $'000 |
|---|---|---|---|---|---|
| **Trust** | | | | | |
| **2016** | | | | | |
| Term Commodity Murabaha Facility F | SGD | *SOR+Margin | 2017 | 75,000 | 74,514 |
| Term Commodity Murabaha Facility C | SGD | *SOR+Margin | 2019 | 30,000 | 29,480 |
| Term Commodity Murabaha Facility B (2020) | SGD | *SOR+Margin | 2020 | 90,000 | 89,044 |
| Revolving Commodity Murabaha Facility D (2020) | SGD | *SOR+Margin | 2020 | 13,300 | 13,300 |
| Loan from a subsidiary | SGD | 4.50% | 2017 | 42,750 | 42,626 |
| Loan from a subsidiary | SGD | 4.00% | 2018 | 90,000 | 89,753 |
| Loan from a subsidiary | SGD | 4.25% | 2019 | 100,000 | 99,438 |
| | | | | 441,050 | 438,155 |
| **2015** | | | | | |
| Term Commodity Murabaha Facility B (2016) | SGD | *SOR+Margin | 2016 | 90,000 | 89,688 |
| Revolving Commodity Murabaha Facility D (2016) | SGD | *SOR+Margin | 2016 | 30,000 | 30,000 |
| Term Commodity Murabaha Facility F | SGD | *SOR+Margin | 2017 | 75,000 | 73,787 |
| Term Commodity Murabaha Facility C | SGD | *SOR+Margin | 2019 | 30,000 | 29,313 |
| Revolving Murabahah Facility | SGD | *SOR+Margin | 2018 | 28,000 | 27,600 |
| Loan from a subsidiary | SGD | 4.50% | 2017 | 42,750 | 42,466 |
| Loan from a subsidiary | SGD | 4.00% | 2018 | 90,000 | 89,558 |
| Loan from a subsidiary | SGD | 4.25% | 2019 | 100,000 | 99,205 |
| | | | | 485,750 | 481,617 |

* Swap Offer Rate

# Notes to the Financial Statements

For the year ended 31 December 2016

## 10 BORROWINGS (CONTINUED)

### (a) *Commodity Murabaha Facilities*

The outstanding $208.3 million (2015: $225.0 million) Commodity Murabaha Facilities from various institutional banks are secured by, inter alia:

- A first ranking legal mortgage over 8 (2015: 10) investment properties with a combined carrying value of $574,400,000 (2015: $653,500,000) (collectively, the "Securitised Properties") (or, where title to the Securitised Properties has not been issued, an assignment of building agreement or agreement for lease (as the case may be) coupled with a mortgage in escrow);

- Assignment of insurances, assignment of proceeds and assignment of Property Management Agreements relating to the Securitised Properties; and

- A fixed and floating charge over the other assets of the Trust relating to the Securitised Properties.

As at 31 December 2016, the Revolving Commodity Murabaha Facility D has an undrawn amount of $4.7 million (2015: $18.0 million).

### (b) *Revolving Murabahah Facility*

The Revolving Murabahah Facility, which is fully undrawn (2015: with an outstanding amount of $28.0 million), from an institutional bank is secured by, *inter-alia*:

- A first ranking legal mortgage over 8 Commonwealth Lane and 34 Penjuru Lane with a combined carrying value of $97,700,000 (2015: $113,900,000) ("Dual Secured Properties");

- Assignment of insurances, assignment of proceeds and assignment of Property Management Agreements relating to the Dual Secured Properties; and

- A fixed and floating charge over the other assets of the Trust relating to the Dual Secured Properties.

As at 31 December 2016, the Revolving Murabahah Facility has an undrawn amount of $50.0 million (2015: $22.0 million).

# Notes to the Financial Statements

For the year ended 31 December 2016

## 10 BORROWINGS (CONTINUED)

### *(c) Unsecured Multicurrency Trust Certificates ("Trust Certificates")*

On 16 April 2013, the Trust, through its wholly-owned subsidiary, Sabana Sukuk Pte. Ltd. (the "Programme Issuer"), established a $500.0 million Multicurrency Islamic Trust Certificates Issuance Programme (the "Trust Certificates Programme"). Under the Trust Certificates Programme, the Programme Issuer may, subject to compliance with all relevant laws, regulations and directives, from time to time issue Trust Certificates denominated in Singapore dollars and/or any other currencies.

The payment of all amounts payable in respect of the Trust Certificates will be unconditionally and irrevocably guaranteed by HSBC Institutional Trust Services (Singapore) Limited in its capacity as Trustee of the Trust.

The Group issued the following Trust Certificates under its Trust Certificates Programme:

- $90.0 million 4.0 per cent. Trust Certificates issued on 19 March 2014 and due on 19 March 2018; and
- $100.0 million 4.25 per cent. Trust Certificates issued on 3 October 2014 and due on 3 April 2019.

### *(d) Loans from subsidiaries*

The loans from subsidiaries are unsecured, bear fixed profit rates of 4.5% per annum, 4.0% per annum and 4.25% per annum and are repayable on 24 September 2017, 19 March 2018 and 3 April 2019 respectively.

## 11 CONVERTIBLE SUKUK – DEBT COMPONENT

| | Group | |
|---|---|---|
| | 2016<br>$'000 | 2015<br>$'000 |
| Carrying amount of debt component at beginning of the year | 41,933 | 70,375 |
| Profit accretion, including amortisation of transaction costs | 462 | 660 |
| Extinguishment of debt component arising from the redemption of Convertible Sukuk pursuant to the put option exercised by Sukukholders | – | (29,102) |
| Carrying amount of debt component at end of the year | 42,395 | 41,933 |

# Notes to the Financial Statements

For the year ended 31 December 2016

## 11 CONVERTIBLE SUKUK – DEBT COMPONENT (CONTINUED)

On 24 September 2012, a wholly-owned subsidiary of the Trust, Sabana Treasury Pte. Ltd. (the "Issuer"), issued a $80.0 million in aggregate principal amount of unsecured Convertible Sukuk due on 24 September 2017 of 4.50% per annum. The Convertible Sukuk are convertible by Sukukholders into Units of the Trust at any time on or after 9 November 2012 up to the close of business on the seventh day prior to 24 September 2017. As at 31 December 2016, the conversion price per Unit ("Conversion Price") is $1.0131 (2015: $1.0680). The Trust has the option to pay cash in lieu of issuing new Units on conversion of any Convertible Sukuk.

Since the date of their issue, an aggregate principal amount of $7.5 million (2015: $7.5 million) of Convertible Sukuk has been converted into 6,285,090 (2015: 6,285,090) Units by converting Sukukholders.

The Convertible Sukuk may be redeemed, after 24 September 2015, at the option of the Issuer, in whole but not in part, at 100% of the principal amount of the Convertible Sukuk outstanding, plus any accrued but unpaid profit, if the closing price of the Units for any 20 consecutive trading days is at least 130% of the Conversion Price in effect on such trading day.

The Convertible Sukuk may also be redeemed at any time prior to 24 September 2017, at the option of the Issuer, in whole but not in part, at 100% of the principal amount of the Convertible Sukuk outstanding, plus any accrued but unpaid profit, if at any time at least 90% of the principal amount of the Convertible Sukuk originally issued have already been converted, redeemed or purchased and cancelled.

On 24 September 2015, an aggregate principal amount of $29.7 million of Convertible Sukuk was redeemed and cancelled pursuant to the put option exercised by Sukukholders.

Unless previously redeemed pursuant to the put option exercised by Sukukholders on 24 September 2015 or by the Issuer at any time on or after 24 September 2015, the final maturity date is 24 September 2017.

As at 31 December 2016, the effective profit rate for the Convertible Sukuk – debt component is approximately 5.65% (2015: 5.65%) per annum.

# Notes to the Financial Statements

For the year ended 31 December 2016

## 12 DERIVATIVE FINANCIAL INSTRUMENTS

| | Group | | Trust | |
|---|---|---|---|---|
| | 2016 $'000 | 2015 $'000 | 2016 $'000 | 2015 $'000 |
| **Current assets** | | | | |
| Profit rate swaps at fair value through Statement of Total Return | – | 403 | – | 403 |
| **Non-current assets** | | | | |
| Profit rate swaps at fair value through Statement of Total Return | 522 | – | 522 | – |
| **Current liabilities** | | | | |
| Profit rate swaps at fair value through Statement of Total Return | (562) | – | (562) | – |
| Embedded derivatives relating to Convertible Sukuk at fair value through Statement of Total Return | * | (2) | * | – |
| | (562) | (2) | (562) | – |
| **Non-current liabilities** | | | | |
| Profit rate swaps at fair value through Statement of Total Return | – | (206) | – | (206) |
| Total derivative financial instruments | (40) | 195 | (40) | 197 |
| Derivative financial instruments as a percentage of net assets | 0.00% | 0.03% | 0.00% | 0.03% |

* Less than $1,000

The Group uses profit rate swaps to manage its exposure to profit rate movements on its floating rate bearing Term Commodity Murabaha Facilities by swapping the profit rates on a proportion of these term loans from floating rates to fixed rates.

Profit rate swaps with a total notional amount of $165.0 million (2015: $165.0 million) had been entered into at the reporting date to provide fixed rate funding for terms of 3.0 to 5.0 years (2015: 1.5 to 5 years) at a weighted average profit rate of 3.98% (2015: 3.57%) per annum.

# Notes to the Financial Statements

For the year ended 31 December 2016

## 12 DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

***Offsetting financial assets and financial liabilities***

The Group's derivative transactions are entered into under International Derivatives Swaps and Dealers Association ("ISDA") Master Netting Agreements. The ISDA does not meet the criteria for offsetting in the Statement of Financial Position. This is because it creates a right of set-off of recognised amounts that is enforceable only following an event of default, insolvency or bankruptcy of the Group or the counterparties. In addition, the Group and its counterparties do not intend to settle on a net basis or to realise the assets and settle the liabilities simultaneously.

As at 31 December 2016 and 31 December 2015, the Group's derivative assets and liabilities do not have any balances that are eligible for offsetting under the enforceable master netting arrangement.

## 13 UNITS IN ISSUE AND TO BE ISSUED

| | Group and Trust | |
|---|---|---|
| | **2016** | **2015** |
| | **'000** | **'000** |
| **Units in issue:** | | |
| At beginning of the year | 732,381 | 724,624 |
| **Units issued:** | | |
| - Manager's fees paid in Units | 7,410 | 5,946 |
| - DRP | – | 1,811 |
| | 739,791 | 732,381 |
| **Units to be issued:** | | |
| - Manager's fees payable in Units | 2,580 | 1,646 |
| Total Units issued and to be issued at end of the year, excluding Units to be issued in January 2017, pursuant to the Rights Issue | 742,371 | 734,027 |
| - Rights Issue (Note 29) | 310,712 | – |
| Total Units issued and to be issued entitled to distributions at end of the year | 1,053,083 | 734,027 |

# Notes to the Financial Statements

For the year ended 31 December 2016

## 13 UNITS IN ISSUE AND TO BE ISSUED (CONTINUED)

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 and available for purposes of such distribution 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 the lesser) at any time convene a meeting of Unitholders in accordance with the provisions of the Trust Deed.

The Unitholders cannot give any directions to the Manager or the Trustee (whether at a meeting of Unitholders or otherwise) if it would require the Trustee or the Manager to do or omit doing anything which may result in:

- the Trust ceasing to comply with the Listing Manual issued by SGX-ST or the Property Funds Appendix; or
- the exercise of any discretion expressly conferred on the Trustee or the Manager by the Trust Deed or the determination of any matter for which the agreement of either or both the Trustee and the Manager is required under the Trust Deed.

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

On 1 April 2014, the Trust introduced and implemented the DRP whereby the Unitholders have the option to receive their distribution in Units instead of cash or a combination of Units and cash.

During the year ended 31 December 2015, 1,811,131 new Units at the issue price range of $0.8713 to $0.9086 per Unit were issued pursuant to the DRP.

During the year ended 31 December 2016, the DRP was not implemented.

# Notes to the Financial Statements

For the year ended 31 December 2016

## 14 NET ASSET VALUE PER UNIT

| | Group | | Trust | |
|---|---|---|---|---|
| | **2016** | **2015** | **2016** | **2015** |
| Net asset value per Unit ($) | 0.75 | 0.89 | 0.75 | 0.89 |
| Net asset value per Unit is based on: | **$'000** | **$'000** | **$'000** | **$'000** |
| Net assets | 556,795 | 653,741 | 556,553 | 653,203 |
| | **'000** | **'000** | **'000** | **'000** |
| Total Units issued and to be issued at end of the year (excluding Units to be issued pursuant to the Rights Issue in January 2017) (Note 13) | 742,371 | 734,027 | 742,371 | 734,027 |

## 15 FINANCIAL RISK MANAGEMENT

### 15.1 Capital management

The Group reviews its capital management policy regularly so as to optimise the Group's funding structure. The Group also monitors its exposures to various risk elements and externally imposed requirements by closely adhering to clearly established management policies and procedures. The primary objective of the Group's capital management is to safeguard its ability to continue as a going concern and to maintain an optimal capital structure so as to maximise Unitholder's value. In order to maintain or achieve an optimal capital structure, the Group will endeavour to employ an appropriate mix of debt and equity in financing acquisitions and assets enhancements, and utilise profit rate and currency hedging strategies where appropriate. The Manager reviews this policy on a continuous basis.

The Group is subject to the aggregate leverage limit as defined in the Property Funds Appendix. The CIS Code stipulates that the total borrowings and deferred payments (together the "Aggregate Leverage") of a property fund should not exceed 45.0% of its Deposited Property. The Group has complied with the Aggregate Leverage limit during the financial year. There were no changes in the Group's approach to capital management during the financial year.

As at the reporting date, the gross amounts of borrowings and retention sums as a percentage of the Group's Deposited Property is 43.2% (2015: 41.7%).

# Notes to the Financial Statements

For the year ended 31 December 2016

## 15 FINANCIAL RISK MANAGEMENT (CONTINUED)

### 15.2 Risk management framework

The Group is exposed it to market risk (including profit rate risk), credit risk and liquidity risk.

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk.

Risk management is integral to the whole business of the Group. The Manager has implemented a system of controls in place to create an acceptable balance between the benefits derived from managing risks and the cost of managing those risks. The Manager also monitors the Group's risk management process closely to ensure an appropriate balance between control and business objectives is achieved. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's strategic direction.

The Audit Committee of the Manager assists the Board in overseeing how the Manager monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the Group's exposure to those risks. The Audit Committee is assisted in its oversight role by an internal audit function which is outsourced to an independent professional firm ("Internal Audit"). Internal Audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

### 15.3 Credit risk

Credit risk is the risk of financial loss to the Group resulting from the failure of a tenant or counterparty of the Group, to settle its financial and contractual obligations, as and when they fall due.

The carrying amount of financial assets in the Statement of Financial Position represents the Group and the Trust's maximum exposure to credit risk. The maximum exposure to credit risk at the reporting date was:

| | Group | | Trust | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| | $'000 | $'000 | $'000 | $'000 |
| Trade and other receivables | 9,422 | 9,548 | 9,422 | 9,548 |
| Cash and cash equivalents | 9,206 | 10,438 | 9,201 | 10,432 |
| | 18,628 | 19,986 | 18,623 | 19,980 |

# Notes to the Financial Statements

For the year ended 31 December 2016

## 15 FINANCIAL RISK MANAGEMENT (CONTINUED)

### 15.3 Credit risk (continued)

The Manager has an established process to evaluate the creditworthiness of its tenants and prospective tenants to minimise potential credit risk. Credit evaluations are performed by the Property Manager and the Manager before lease agreements are entered into with prospective tenants. Security in the form of bankers' guarantees, insurance bonds or cash security deposits are obtained prior to the commencement of the lease.

The Manager establishes an allowance account for impairment that represents its estimate of incurred losses in respect of loans and receivables. The main component of this allowance is estimated losses that relate to specific tenants or counterparties. The allowance account is used to provide for impairment losses. Subsequently when the Manager is satisfied that no recovery of such losses is possible, the financial asset is considered irrecoverable and the amount charged to the allowance account is then written off against the carrying amount of the impaired financial asset.

The ageing of gross trade receivables at the reporting date was:

| | Group and Trust | |
|---|---|---|
| | 2016 $'000 | 2015 $'000 |
| Not past due | 48 | 49 |
| Past due 0 - 30 days | 1,368 | 532 |
| Past due 31 - 60 days | 448 | 467 |
| More than 60 days past due | 3,473 | 479 |
| | 5,337 | 1,527 |

Two tenants (2015: Two tenants) accounted for approximately $4,324,000 (2015: $1,046,000) of the gross trade receivables carrying amounts at 31 December 2016.

***Impairment losses***

The movements in impairment loss in respect of trade receivables are as follows:

| | Group and Trust | |
|---|---|---|
| | 2016 $'000 | 2015 $'000 |
| At 1 January | 20 | – |
| Impairment losses recognised during the year | 2,353 | 20 |
| At 31 December | 2,373 | 20 |

# Notes to the Financial Statements

For the year ended 31 December 2016

## 15 FINANCIAL RISK MANAGEMENT (CONTINUED)

### 15.3 Credit risk (continued)

***Impairment losses (continued)***

Trade receivables are individually assessed for impairment at the end of the financial year. The impairment loss on trade receivables as at 31 December 2016 relates to one tenant (2015: one tenant) in financial difficulties and has defaulted in payments.

Impairment loss of approximately $2,353,000 (2015: $20,000) were made for the outstanding balances that were past due and in excess of security deposits held by Sabana REIT.

The movements in impairment loss in respect of other receivables are as follows:

| | Group and Trust | |
|---|---|---|
| | **2016** | **2015** |
| | **$'000** | **$'000** |
| At 1 January | 63 | – |
| Impairment losses recognised during the year | – | 63 |
| At 31 December | 63 | 63 |

The Manager believes that no additional impairment loss is necessary in respect of the remaining trade and other receivables as these amounts mainly arise from tenants who have good payment records and the retention of sufficient security in the form of bankers' guarantees or cash security deposits from tenants.

Cash and fixed deposits are placed with financial institutions which are regulated. The Group limits its credit risk exposure by dealing with counterparties that have sound credit ratings. Given these high credit ratings, management does not expect any counterparty to fail to meet its obligations.

### 15.4 Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Manager monitors and maintains a level of cash and cash equivalents deemed adequate to finance the Group's operations and to mitigate the effects of fluctuations in cash flows. In addition, the Manager monitors and observes the CIS Code issued by the MAS concerning limits on total borrowings.

# Notes to the Financial Statements

For the year ended 31 December 2016

## 15 FINANCIAL RISK MANAGEMENT (CONTINUED)

### 15.4 Liquidity risk (continued)

The following are the contractual undiscounted cash flows of financial liabilities, including estimated profit payments and excluding the impact of netting agreements:

| | | | Cash flows | | |
|---|---|---|---|---|---|
| | **Carrying amount $'000** | **Contractual cash flows $'000** | **Less than 1 year $'000** | **Between 1 to 5 years $'000** | **More than 5 years $'000** |
| **Group** | | | | | |
| **2016** | | | | | |
| **Non-derivative financial liabilities** | | | | | |
| Commodity Murabaha Facilities | 206,338 | (222,020) | (80,544) | (141,476) | – |
| Convertible Sukuk – debt component | 42,395 | (44,157) | (44,157) | – | – |
| Trust Certificates | 189,191 | (203,952) | (7,850) | (196,102) | – |
| Trade and other payables* | 27,393 | (27,393) | (13,882) | (10,887) | (2,624) |
| | 465,317 | (497,522) | (146,433) | (348,465) | (2,624) |
| **Derivative financial liabilities** | | | | | |
| Profit rate swaps (net-settled) | 562 | (577) | (577) | – | – |
| **2015** | | | | | |
| **Non-derivative financial liabilities** | | | | | |
| Commodity Murabaha Facilities | 222,788 | (238,244) | (127,990) | (110,254) | – |
| Revolving Murabahah Facility | 27,600 | (30,624) | (980) | (29,644) | – |
| Convertible Sukuk – debt component | 41,933 | (46,087) | (1,924) | (44,163) | – |
| Trust Certificates | 188,763 | (211,824) | (7,850) | (203,974) | – |
| Trade and other payables* | 29,709 | (29,709) | (13,781) | (13,149) | (2,779) |
| | 510,793 | (556,488) | (152,525) | (401,184) | (2,779) |
| **Derivative financial liabilities** | | | | | |
| Profit rate swaps (net-settled) | 206 | (763) | (462) | (301) | – |

* Trade and other payables exclude rental received in advance.

# Notes to the Financial Statements

For the year ended 31 December 2016

## 15 FINANCIAL RISK MANAGEMENT (CONTINUED)

### 15.4 Liquidity risk (continued)

| | Carrying amount $'000 | Contractual cash flows $'000 | < Cash flows > Less than 1 year $'000 | Between 1 to 5 years $'000 | More than 5 years $'000 |
|---|---|---|---|---|---|
| **Trust** | | | | | |
| **2016** | | | | | |
| **Non-derivative financial liabilities** | | | | | |
| Commodity Murabaha Facilities | 206,338 | (222,020) | (80,544) | (141,476) | – |
| Loans from subsidiaries | 231,817 | (248,109) | (52,007) | (196,102) | – |
| Trade and other payables* | 27,391 | (27,391) | (13,880) | (10,887) | (2,624) |
| | 465,546 | (497,520) | (146,431) | (348,465) | (2,624) |
| **Derivative financial liabilities** | | | | | |
| Profit rate swaps (net-settled) | 562 | (577) | (577) | – | – |
| **2015** | | | | | |
| **Non-derivative financial liabilities** | | | | | |
| Commodity Murabaha Facilities | 222,788 | (238,244) | (127,990) | (110,254) | – |
| Revolving Murabahah Facility | 27,600 | (30,624) | (980) | (29,644) | – |
| Loans from subsidiaries | 231,229 | (257,911) | (9,774) | (248,137) | – |
| Trade and other payables* | 29,702 | (29,702) | (13,774) | (13,149) | (2,779) |
| | 511,319 | (556,481) | (152,518) | (401,184) | (2,779) |
| **Derivative financial liabilities** | | | | | |
| Profit rate swaps (net-settled) | 206 | (763) | (462) | (301) | – |

* Trade and other payables exclude rental received in advance.

The maturity analyses show the contractual undiscounted cash flows of the Group and the Trust's financial liabilities on the basis of their earliest possible contractual maturity. For derivative financial instruments, the cash inflows/(outflows) represent the contractual undiscounted cash flows relating to these instruments. The amounts are compiled on a net basis for derivatives that are net-settled.

It is not expected that the cash flows included in the maturity analysis of the Group and the Trust could occur significantly earlier, or at significantly different amounts.

# Notes to the Financial Statements

For the year ended 31 December 2016

## 15 FINANCIAL RISK MANAGEMENT (CONTINUED)

### 15.5 Market risk

Market risk is the risk that changes in market prices, such as profit rates, foreign exchange rates and equity prices will affect the Group's total return or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk. The Group does not have any exposure to foreign exchange rates and equity prices risks.

### 15.6 Profit rate risk

The Group's exposure to fluctuations in profit rates relates primarily to borrowings. Profit rate risk is managed by the Group on an on-going basis with the primary objective of limiting the extent to which net profit expense could be affected by adverse movements in profit rates. The Group adopts a policy of ensuring that majority of its exposures to changes in profit rates on borrowings is on a fixed-rate basis. This is achieved by entering into profit rate swaps and fixed rate borrowings.

As at the reporting date, the Group had entered into profit rate swaps with total contracted notional amounts of $165.0 million (2015: $165.0 million) whereby the Group had agreed with counterparties to exchange, at specified intervals, the difference between the floating rate pegged to the Singapore dollar SOR and fixed rate profit amounts calculated by reference to the contracted notional amounts of the borrowings.

***Profit rate profile***

As at the reporting date, the profit rate profile of profit-bearing financial instruments was:

| | Group Nominal amount | | Trust Nominal amount | |
|---|---|---|---|---|
| | 2016 $'000 | 2015 $'000 | 2016 $'000 | 2015 $'000 |
| **Fixed rate instruments** | | | | |
| Financial assets | 6,480 | 7,670 | 6,480 | 7,670 |
| Financial liabilities | (232,750) | (232,750) | (232,750) | (232,750) |
| Effects of profit rate swaps | (165,000) | (165,000) | (165,000) | (165,000) |
| | (391,270) | (390,080) | (391,270) | (390,080) |
| **Variable rate instruments** | | | | |
| Financial liabilities | (208,300) | (253,000) | (208,300) | (253,000) |
| Effects of profit rate swaps | 165,000 | 165,000 | 165,000 | 165,000 |
| | (43,300) | (88,000) | (43,300) | (88,000) |

# Notes to the Financial Statements

For the year ended 31 December 2016

## 15 FINANCIAL RISK MANAGEMENT (CONTINUED)

### 15.6 Profit rate risk (continued)

***Fair value sensitivity analysis for fixed rate instruments***

The Group does not account for any fixed rate financial assets and liabilities at fair value through Statement of Total Return and the Group does not designate profit rate swaps as hedging instruments under a fair value hedge accounting model. Therefore a change in profit rates at the reporting date would not affect the Statement of Total Return.

***Cash flow sensitivity analysis for variable rate instruments***

A change of 50 basis points ("bp") in profit rate at the reporting date would (decrease)/increase total return after taxation by the amounts shown below. The analysis assumes that all variables remain constant. The analysis is performed on the same basis for 2015.

| | Total return after taxation | |
|---|---|---|
| | **50 bp increase $'000** | **50 bp decrease $'000** |
| **Group and Trust** | | |
| **2016** | | |
| Financial liabilities | (217) | 217 |
| **2015** | | |
| Financial liabilities | (440) | 440 |

## 16 GROSS REVENUE

| | Group and Trust | |
|---|---|---|
| | **2016 $'000** | **2015 $'000** |
| Property rental income | 79,686 | 88,975 |
| Other operating income | 12,121 | 11,849 |
| | 91,807 | 100,824 |

# Notes to the Financial Statements

For the year ended 31 December 2016

## 17 PROPERTY EXPENSES

| | Group and Trust | |
|---|---|---|
| | 2016 | 2015 |
| | $'000 | $'000 |
| Land rent | 4,455 | 2,532 |
| Service, repair and maintenance expenses | 7,041 | 6,497 |
| Property and lease management fees | 2,754 | 3,025 |
| Property tax | 6,407 | 5,400 |
| Utilities | 10,829 | 10,880 |
| Impairment loss on trade and other receivables | 2,353 | 83 |
| Others | 1,026 | 802 |
| | 34,865 | 29,219 |

Property expenses represent the direct operating expenses arising from rental and investment properties.

## 18 FINANCE INCOME AND COSTS

| | Group | | Trust | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| | $'000 | $'000 | $'000 | $'000 |
| **Finance income:** | | | | |
| Profit income from fixed deposits with Islamic financial institutions | 30 | 65 | 30 | 65 |
| Ta'widh (compensation on late payment of rent) | 263 | 65 | 263 | 65 |
| | 293 | 130 | 293 | 130 |
| **Finance costs:** | | | | |
| Commodity Murabaha Facilities | 7,091 | 7,483 | 7,091 | 7,483 |
| Revolving Murabahah Facility | 599 | 324 | 599 | 324 |
| Profit rate swaps* | 637 | 513 | 637 | 513 |
| Convertible Sukuk | 1,929 | 2,914 | – | – |
| Trust Certificates | 7,872 | 7,850 | – | – |
| Loans from subsidiaries | – | – | 9,801 | 10,764 |
| Amortisation of transaction costs | 2,784 | 2,284 | 2,482 | 1,857 |
| Brokerage and agent fees | 177 | 180 | 163 | 165 |
| | 21,089 | 21,548 | 20,773 | 21,106 |
| **Net finance costs** | 20,796 | 21,418 | 20,480 | 20,976 |

* Except for the finance costs arising from profit rate swaps, all other finance income and cost items represent the profit income and expenses in respect of financial assets and liabilities not carried at fair value through Statement of Total Return.

# Notes to the Financial Statements

For the year ended 31 December 2016

## 19 MANAGER'S FEES

Included in Manager's fees of the Group and Trust is an aggregate of 8,344,623 (2015: 6,232,961) Units, of which 5,764,396 (2015: 4,587,334) Units were issued and another 2,580,227 (2015: 1,645,627) Units will be issued to the Manager by the Trust, amounting to approximately $4,266,000 (2015: $5,011,000) at various Unit prices in satisfaction of Manager's fees payable in respect of the year ended 31 December 2016.

## 20 DONATION OF NON-SHARI'AH COMPLIANT INCOME

The total amount of net income subjected to the cleansing process for the quarter ended 31 December 2016 was approved by the Independent Shari'ah Committee to be donated to Singapore Kadayanallur Muslim League.

During the year, donations that had been approved by the Independent Shari'ah Committee included Lien Aid, The Operation Hope Foundation Ltd for their Nepal Earthquake Rebuilding Project and Bursaries Sponsorship and Mendaki Sense (2015: Singapore Red Cross for the Cyclone Pam 2015 Relief Fund, Mendaki Sense, Majlis Ugama Islam Singapura and Singapore Red Cross for the South India Floods 2015 Relief Fund).

## 21 OTHER TRUST EXPENSES

| | Group | | Trust | |
|---|---|---|---|---|
| | 2016<br>$'000 | 2015<br>$'000 | 2016<br>$'000 | 2015<br>$'000 |
| Auditors' remuneration | | | | |
| - audit fees | 189 | 189 | 181 | 181 |
| - non-audit fees | 90 | 53 | 84 | 47 |
| Valuation fees | 118 | 116 | 118 | 116 |
| Professional fees | 369 | 418 | 355 | 403 |
| Service fees payable to subsidiaries | – | – | 59 | 59 |
| Other expenses | 289 | 433 | 276 | 420 |
| | 1,055 | 1,209 | 1,073 | 1,226 |

# Notes to the Financial Statements

For the year ended 31 December 2016

## 22 TAX EXPENSE

| | Group | | Trust | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| | $'000 | $'000 | $'000 | $'000 |
| **Tax expense** | | | | |
| Current year | * | * | – | – |
| **Reconciliation of effective tax rate** | | | | |
| Total return for the year before taxation and distribution | (62,464) | (73,436) | (62,168) | (73,189) |
| Tax using Singapore tax rate of 17% (2015: 17%) | (10,619) | (12,484) | (10,569) | (12,442) |
| Non-tax deductible items | 16,962 | 21,454 | 16,912 | 21,310 |
| Tax exempt income | (62) | (447) | (62) | (345) |
| Tax transparency | (6,281) | (8,523) | (6,281) | (8,523) |
| | * | * | – | – |

* Less than $1,000

## 23 EARNINGS PER UNIT

***Basic and diluted earnings per Unit***

The calculation of basic earnings per Unit is based on the weighted average number of Units during the year and total return for the year.

| | Group | | Trust | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| | $'000 | $'000 | $'000 | $'000 |
| Total return for the year after taxation and before distribution | (62,464) | (73,436) | (62,168) | (73,189) |

# Notes to the Financial Statements

For the year ended 31 December 2016

## 23 EARNINGS PER UNIT (CONTINUED)

***Basic and diluted earnings per Unit (continued)***

| | Number of Units | | | |
|---|---|---|---|---|
| | Group | | Trust | |
| | 2016 '000 | 2015 '000 | 2016 '000 | 2015 '000 |
| Weighted average number of Units | | | | |
| - Beginning of the year | 732,381 | 724,624 | 732,381 | 724,624 |
| - Issued as payment of Manager's fees | 3,938 | 3,178 | 3,938 | 3,178 |
| - Issued pursuant to DRP | – | 1,405 | – | 1,405 |
| - To be issued as payment of Manager's fees payable in Units | 7 | 5 | 7 | 5 |
| Weighted average number of Units | 736,326 | 729,212 | 736,326 | 729,212 |

The diluted earnings per Unit is the same as the basic earnings per Unit for the Group and the Trust (2015: Group and the Trust) as the Convertible Sukuk was anti-dilutive at the Group and the Trust (2015: Group and the Trust) levels.

## 24 FAIR VALUES AND ACCOUNTING CLASSIFICATIONS OF FINANCIAL INSTRUMENTS

***Measurement of fair values***

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. When applicable, further information about the assumptions made in determining fair values of non-financial assets and liabilities are disclosed in the relevant notes specific to those non-financial assets or liabilities.

When measuring the fair value of an asset or a liability, the Group uses observable market data as far as possible.

Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.

- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).

- Level 3: inputs for the asset or liability that are not based an observable market data (unobservable inputs).

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

# Notes to the Financial Statements

For the year ended 31 December 2016

## 24 FAIR VALUES AND ACCOUNTING CLASSIFICATIONS OF FINANCIAL INSTRUMENTS (CONTINUED)

***Measurement of fair values (continued)***

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

***Accounting classifications and fair values***

The fair values of financial assets and liabilities, together with the carrying amounts shown in the Statement of Financial Position, are as follows. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

| | | Carrying amount | | | | Fair value | | | |
|---|---|---|---|---|---|---|---|---|---|
| Group | Note | Designated at fair value $'000 | Loans and receivables $'000 | Other financial liabilities $'000 | Total $'000 | Level 1 $'000 | Level 2 $'000 | Level 3 $'000 | Total $'000 |
| **2016** | | | | | | | | | |
| **Financial assets measured at fair value** | | | | | | | | | |
| Derivative assets | 12 | 522 | – | – | 522 | – | 522 | – | 522 |
| **Financial assets not measured at fair value** | | | | | | | | | |
| Trade and other receivables# | 7 | – | 9,422 | – | 9,422 | | | | |
| Cash and cash equivalents | 8 | – | 9,206 | – | 9,206 | | | | |
| | | – | 18,628 | – | 18,628 | | | | |
| **Financial liabilities measured at fair value** | | | | | | | | | |
| Derivative liabilities | 12 | (562) | – | – | (562) | – | (562) | * | (562) |
| **Financial liabilities not measured at fair value** | | | | | | | | | |
| Trade and other payables** | 9 | – | – | (10,614) | (10,614) | | | | |
| Security deposits | 9 | – | – | (16,779) | (16,779) | – | – | (15,660) | (15,660) |
| Borrowings | 10 | – | – | (437,924) | (437,924) | – | (224,273) | (206,338) | (430,611) |
| | | – | – | (465,317) | (465,317) | | | | |

# Excludes prepayment
* Less than $1,000
** Excludes security deposits and rental received in advance

# Notes to the Financial Statements

For the year ended 31 December 2016

## 24 FAIR VALUES AND ACCOUNTING CLASSIFICATIONS OF FINANCIAL INSTRUMENTS (CONTINUED)

### *Accounting classifications and fair values (continued)*

| Group | Note | Carrying amount | | | | Fair value | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | Designated at fair value $'000 | Loans and receivables $'000 | Other financial liabilities $'000 | Total $'000 | Level 1 $'000 | Level 2 $'000 | Level 3 $'000 | Total $'000 |
| **2015** | | | | | | | | | |
| **Financial assets measured at fair value** | | | | | | | | | |
| Derivative assets | 12 | 403 | – | – | 403 | – | 403 | – | 403 |
| **Financial assets not measured at fair value** | | | | | | | | | |
| Trade and other receivables[#] | 7 | – | 9,548 | – | 9,548 | | | | |
| Cash and cash equivalents | 8 | – | 10,438 | – | 10,438 | | | | |
| | | – | 19,986 | – | 19,986 | | | | |
| **Financial liabilities measured at fair value** | | | | | | | | | |
| Derivative liabilities | 12 | (208) | – | – | (208) | – | (206) | (2) | (208) |
| **Financial liabilities not measured at fair value** | | | | | | | | | |
| Trade and other payables[**] | 9 | – | – | (10,625) | (10,625) | | | | |
| Security deposits | 9 | – | – | (19,084) | (19,084) | – | – | (17,513) | (17,513) |
| Borrowings | 10 | – | – | (481,084) | (481,084) | – | (231,996) | (250,388) | (482,384) |
| | | – | – | (510,793) | (510,793) | | | | |

[#] Excludes prepayment
[**] Excludes security deposits and rental received in advance

# Notes to the Financial Statements

For the year ended 31 December 2016

## 24 FAIR VALUES AND ACCOUNTING CLASSIFICATIONS OF FINANCIAL INSTRUMENTS (CONTINUED)

### *Accounting classifications and fair values (continued)*

| Trust | Note | Carrying amount | | | | Fair value | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | Designated at fair value $'000 | Loans and receivables $'000 | Other financial liabilities $'000 | Total $'000 | Level 1 $'000 | Level 2 $'000 | Level 3 $'000 | Total $'000 |
| **2016** | | | | | | | | | |
| **Financial assets measured at fair value** | | | | | | | | | |
| Derivative assets | 12 | 522 | – | – | 522 | – | 522 | – | 522 |
| **Financial assets not measured at fair value** | | | | | | | | | |
| Trade and other receivables# | 7 | – | 9,422 | – | 9,422 | | | | |
| Cash and cash equivalents | 8 | – | 9,201 | – | 9,201 | | | | |
| | | – | 18,623 | – | 18,623 | | | | |
| **Financial liabilities measured at fair value** | | | | | | | | | |
| Derivative liabilities | 12 | (562) | – | – | (562) | – | (562) | – | (562) |
| **Financial liabilities not measured at fair value** | | | | | | | | | |
| Trade and other payables** | 9 | – | – | (10,612) | (10,612) | | | | |
| Security deposits | 9 | – | – | (16,779) | (16,779) | – | – | (15,660) | (15,660) |
| Borrowings | 10 | – | – | (438,155) | (438,155) | – | (224,273) | (206,338) | (430,611) |
| | | – | – | (465,546) | (465,546) | | | | |

# Excludes prepayment
** Excludes security deposits and rental received in advance

# Notes to the Financial Statements

For the year ended 31 December 2016

## 24 FAIR VALUES AND ACCOUNTING CLASSIFICATIONS OF FINANCIAL INSTRUMENTS (CONTINUED)

### *Accounting classifications and fair values (continued)*

| | | Carrying amount | | | | Fair value | | | |
|---|---|---|---|---|---|---|---|---|---|
| **Trust** | **Note** | **Designated at fair value $'000** | **Loans and receivables $'000** | **Other financial liabilities $'000** | **Total $'000** | **Level 1 $'000** | **Level 2 $'000** | **Level 3 $'000** | **Total $'000** |
| **2015** | | | | | | | | | |
| **Financial assets measured at fair value** | | | | | | | | | |
| Derivative assets | 12 | 403 | – | – | 403 | – | 403 | – | 403 |
| **Financial assets not measured at fair value** | | | | | | | | | |
| Trade and other receivables# | 7 | – | 9,548 | – | 9,548 | | | | |
| Cash and cash equivalents | 8 | – | 10,432 | – | 10,432 | | | | |
| | | – | 19,980 | – | 19,980 | | | | |
| **Financial liabilities measured at fair value** | | | | | | | | | |
| Derivative liabilities | 12 | (206) | – | – | (206) | – | (206) | – | (206) |
| **Financial liabilities not measured at fair value** | | | | | | | | | |
| Trade and other payables** | 9 | – | – | (10,618) | (10,618) | | | | |
| Security deposits | 9 | – | – | (19,084) | (19,084) | – | – | (17,513) | (17,513) |
| Borrowings | 10 | – | – | (481,617) | (481,617) | – | (231,994) | (250,388) | (482,382) |
| | | – | – | (511,319) | (511,319) | | | | |

# Excludes prepayment
** Excludes security deposits and rental received in advance

# Notes to the Financial Statements

For the year ended 31 December 2016

## 24 FAIR VALUES AND ACCOUNTING CLASSIFICATIONS OF FINANCIAL INSTRUMENTS (CONTINUED)

***Level 3 fair values***

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurement in Level 3 of the fair value hierarchy:

Embedded derivatives relating to Convertible Sukuk

| | Group | |
|---|---|---|
| | **2016** | **2015** |
| | **$'000** | **$'000** |
| As at 1 January | (2) | (601) |
| Changes in fair value recognised in Statement of Total Return | 2 | 599 |
| As at 31 December | * | (2) |

* Less than $1,000

***Valuation technique and significant unobservable inputs***

The following tables show the valuation techniques used in measuring Level 2 and Level 3 fair values, as well as the significant unobservable inputs used.

Financial instruments measured at fair value

**Group and Trust**

| **Type** | **Valuation technique** | **Significant unobservable input** | **Inter-relationship between key unobservable inputs and fair value measurement** |
|---|---|---|---|
| Embedded derivatives related to the Convertible Sukuk | The fair value of the embedded derivatives relating to Convertible Sukuk is derived from an option pricing model. | Standard deviation | The estimated fair value of the embedded derivatives relating to Convertible Sukuk would increase if the standard deviation was higher. |
| Profit rate swaps | The fair value of profit rate swaps is based on broker quotes at the reporting date. These quotes are tested for reasonableness by discounting estimated future cash flows based on the terms and maturity of each contract and using market profit rates for a similar instrument at the measurement date. | Not applicable | Not applicable |

# Notes to the Financial Statements

For the year ended 31 December 2016

## 24 FAIR VALUES AND ACCOUNTING CLASSIFICATIONS OF FINANCIAL INSTRUMENTS (CONTINUED)

<u>Financial instruments not measured at fair value</u>

***Borrowings***

The carrying amounts of profit-bearing borrowings which are repriced within 3 months from the reporting date approximate their fair values.

The fair values of the Trust Certificates were obtained from market quotes.

The fair value of the debt component of the Convertible Sukuk and the loans from subsidiaries are determined by discounting the estimated future principal and profit cash flows using market profit rates for similar borrowings at the reporting date.

## 25 OPERATING SEGMENTS

The operating segment information is based on the Group's internal reporting structure for the purpose of allocating resources and assessing performance by the Manager's CEO (the chief operating decision maker).

Segment gross revenue comprises mainly of income generated from tenants. Segment net property income represents the income earned by each segment after allocating property expenses.

Segment 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 cash and cash equivalents, other receivables, borrowings and other payables.

# Notes to the Financial Statements

For the year ended 31 December 2016

## 25 OPERATING SEGMENTS (CONTINUED)

The Group has four reportable segments whose information are presented in the tables below:

| | Group | | | | |
|---|---|---|---|---|---|
| | **High-tech industrial $'000** | **Chemical warehouse & logistics $'000** | **Warehouse & logistics $'000** | **General industrial $'000** | **Total $'000** |
| **2016** | | | | | |
| Gross revenue | 53,598 | 6,919 | 21,553 | 9,737 | 91,807 |
| Property expenses | (25,816) | (278) | (6,050) | (2,721) | (34,865) |
| **Segment net property income** | 27,782 | 6,641 | 15,503 | 7,016 | 56,942 |
| Net change in fair value of investment properties | (54,252) | (9,200) | (16,280) | (11,130) | (90,862) |
| Loss on divestment of investment properties | (432) | – | (126) | – | (558) |
| | | | | | (34,478) |
| Unallocated amounts: | | | | | |
| - Finance income | | | | | 293 |
| - Finance costs | | | | | (21,089) |
| - Other expenses | | | | | (6,955) |
| - Net change in fair value of financial derivatives | | | | | (235) |
| **Total return for the year before taxation** | | | | | (62,464) |
| **Assets and liabilities** | | | | | |
| Segment assets | 572,988 | 85,130 | 249,684 | 104,400 | 1,012,202 |
| Unallocated assets | | | | | 10,687 |
| Total assets | | | | | 1,022,289 |
| Segment liabilities | 14,086 | 38 | 5,705 | 2,085 | 21,914 |
| Unallocated liabilities: | | | | | |
| - borrowings | | | | | 437,924 |
| - others | | | | | 6,256 |
| Total liabilities | | | | | 466,094 |
| **Other segment information** | | | | | |
| Capital expenditure | 1,520 | – | 80 | 230 | 1,830 |

# Notes to the Financial Statements

For the year ended 31 December 2016

## 25 OPERATING SEGMENTS (CONTINUED)

| | Group | | | | |
|---|---|---|---|---|---|
| | High-tech industrial $'000 | Chemical warehouse & logistics $'000 | Warehouse & logistics $'000 | General industrial $'000 | Total $'000 |
| **2015** | | | | | |
| Gross revenue | 59,083 | 8,924 | 23,323 | 9,494 | 100,824 |
| Property expenses | (24,004) | (324) | (2,947) | (1,944) | (29,219) |
| **Segment net property income** | 35,079 | 8,600 | 20,376 | 7,550 | 71,605 |
| Net change in fair value of investment properties | (62,792) | (23,500) | (25,576) | (4,840) | (116,708) |
| | | | | | (45,103) |
| Unallocated amounts: | | | | | |
| - Finance income | | | | | 130 |
| - Finance costs | | | | | (21,548) |
| - Other expenses | | | | | (8,526) |
| - Loss on exercise of put option on Convertible Sukuk by Sukukholders | | | | | (648) |
| - Net change in fair value of financial derivatives | | | | | 2,259 |
| **Total return for the year before taxation** | | | | | (73,436) |
| **Assets and liabilities** | | | | | |
| Segment assets | 663,402 | 93,706 | 282,460 | 114,778 | 1,154,346 |
| Unallocated assets | | | | | 11,053 |
| Total assets | | | | | 1,165,399 |
| Segment liabilities | 14,708 | 41 | 6,254 | 3,646 | 24,649 |
| Unallocated liabilities: | | | | | |
| - borrowings | | | | | 481,084 |
| - others | | | | | 5,925 |
| Total liabilities | | | | | 511,658 |
| **Other segment information** | | | | | |
| Capital expenditure | 538 | – | 777 | 140 | 1,455 |

### *Geographical segments*

Segment information in respect of the Group's geographical segments is not presented as the Group's activities for the year ended 31 December 2016 and 31 December 2015 related wholly to properties located in Singapore.

### *Major customer*

A major customer contributed $10,441,000 (2015: $15,802,000) to the Group's total revenue from High-tech industrial, Chemical warehouse & logistics and Warehouse & logistics segments for the year ended 31 December 2016.

# Notes to the Financial Statements

For the year ended 31 December 2016

## 26 COMMITMENTS

### (a) *Operating lease commitments*

The Group and the Trust are required to pay JTC Corporation ("JTC") and Housing Development Board ("HDB") annual land rent in respect of certain properties. The annual land rent payable is based on the market land rent in the relevant year of the lease term. However, the lease agreements limit any increase in the annual land rent from year to year to 5.5% of the annual land rent for the immediate preceding year.

The land rent paid/payable to JTC and HDB amounted to approximately $6,426,000 in relation to 18 properties (2015: $6,750,000 in relation to 18 properties) for the year ended 31 December 2016 (including amounts which have been recharged to the master lessees).

### (b) *Lease commitments*

The Group and the Trust lease out their investment properties under operating lease agreements. Non-cancellable operating lease rentals receivable are as follows:

| | Group and Trust | |
|---|---|---|
| | 2016 | 2015 |
| | $'000 | $'000 |
| Less than one year | 73,586 | 74,638 |
| Between one to five years | 108,723 | 124,832 |
| More than five years | 11,464 | 40,323 |
| | 193,773 | 239,793 |

### (c) *Proposed acquisition of investment properties*

The Group and the Trust have entered into conditional put and call option agreements for the proposed acquisitions of the properties located at 72 Eunos Avenue 7, 107 Eunos Avenue 3 and 47 Changi South Avenue 2 for purchase considerations of S$20.0 million, S$34.5 million and S$23.0 million respectively in December 2016.

The proposed acquisition of 47 Changi South Avenue 2 from a subsidiary of Vibrant Group Limited, a substantial Unitholder, is subject to, amongst others, the approval of Unitholders.

### (d) *Capital expenditure*

The Group and the Trust are committed to incur other capital expenditure of approximately $12.5 million (2015: $12.5 million). These commitments are expected to be settled by 2018.

# Notes to the Financial Statements

For the year ended 31 December 2016

## 27 SIGNIFICANT RELATED PARTY TRANSACTIONS

In the normal course of its business, the Group carried out transactions with related parties on terms agreed between the parties. During the financial year, in addition to those disclosed elsewhere in the financial statements, there were the following significant related party transactions:

| | Group and Trust | |
|---|---|---|
| | **2016** | **2015** |
| | **$'000** | **$'000** |
| Rental income received/receivable from a sponsor and its related corporations | 10,441 | 15,802 |
| Divestment fees paid/payable to the Manager | 83 | – |
| Manager's fees and reimbursables paid/payable to the Manager | 5,333 | 6,263 |
| Property/lease management fees and reimbursables paid/payable to the Property Manager | 2,754 | 3,025 |
| Trustee fees paid/payable to the Trustee | 454 | 544 |

## 28 FINANCIAL RATIOS

| | Group | |
|---|---|---|
| | **2016** | **2015** |
| | % | % |
| Ratio of expenses to weighted average net assets[1] | | |
| - including performance component of Manager's fees | 1.13 | 1.12 |
| - excluding performance component of Manager's fees | 1.13 | 1.12 |
| Portfolio turnover rate[2] | – | – |

(1) The annualised ratios are computed in accordance with the guidelines of Investment Management Association of Singapore. The expenses used in the computation relate to expenses of the Group, excluding property expenses, finance costs and tax expense.

(2) 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 daily average net asset value.

## 29 SUBSEQUENT EVENTS

(i) Subsequent to 31 December 2016, the Manager declared a distribution of 0.88 cents per Unit in respect of the period from 1 October 2016 to 31 December 2016.

(ii) On 25 January 2017, Sabana REIT issued 310,712,244 Rights Units at an issue price of $0.258 per Unit to raise gross proceeds of approximately S$80.2 million.

# Additional Information

## INTERESTED PARTY TRANSACTIONS

Interested person (as defined in the Listing Manual of the SGX-ST) and interested party (as defined in the Property Funds Appendix) transactions (collectively "Interested Party Transactions") during the financial year are as follows.

| Name of Interested Party | Aggregate value of all Interested Party Transactions during the financial year under review (excluding transactions less than $100,000 and transactions conducted under Unitholders' mandate pursuant to Rule 920[1] of the Listing Manual) S$'000 | Aggregate value of all Interested Party Transactions conducted under Unitholders' mandate pursuant to Rule 920 of the Listing Manual (excluding transactions less than $100,000) S$'000 |
|---|---|---|
| **Vibrant Group Limited and its subsidiaries** | | |
| - Rental income | 10,441 | |
| - Manager's fees | 5,333 | – |
| - Property and lease management fees | 2,754 | |
| - Divestment fee | 83 | |
| - Renewal of master leases[2] | 10,112 | |
| - Acquisition of property[3] | 23,000 | |
| **HSBC Institutional Trust Services (Singapore) Limited and its associates** | | |
| - Trustee's fees | 454 | |
| - Finance costs (profit payments) | 1,346 | – |
| - Finance costs (agency commodity fees) | 52 | |

## TOTAL OPERATING EXPENSES[4]

| Description | S$'000 |
|---|---|
| Total operating expenses [5] (inclusive of interested party expenses paid to the Manager and interested parties) | 41,707 |
| Total operating expenses as a percentage of net asset value (as at 31 December 2016) | 7.5% |

**Notes:**

(1) Sabana REIT has not obtained a mandate from its Unitholders for interested person transactions.

(2) Refers to the total aggregate rent payable by Vibrant Group Limited and its subsidiaries for duration of the renewed master leases entered into between the Trustee and Vibrant Group Limited and its subsidiaries.

(3) Refers to the purchase consideration payable for the proposed acquisition of the property at 47 Changi South Avenue 2, which is subject to Unitholders' approval.

(4) For the purpose of complying with paragraph 11.1(i) of the Property Funds Appendix.

(5) Total operating expenses include property expenses and other trust expenses but do not include finance costs.

# Statistics of Unitholdings

## ISSUED AND FULLY PAID UP UNITS
(As at 15 March 2017)

| Date | Event | Number of Units | Amount (S$'000) | Price (S$) |
|---|---|---|---|---|
| 29 January 2016 | Quarterly management fee | 1,645,627 | 1,175 | 0.7140 |
| 26 April 2016 | Quarterly management fee | 1,767,466 | 1,118 | 0.6325 |
| 29 July 2016 | Quarterly management fee | 1,946,359 | 1,054 | 0.5415 |
| 25 October 2016 | Quarterly management fee | 2,050,571 | 1,066 | 0.5199 |
| 27 January 2017 | Quarterly management fee | 2,580,227 | 1,028 | 0.3986 |

There were 1,053,083,530 Units (voting rights: one vote per Unit) outstanding as at 15 March 2017. There is only one class of Units in Sabana REIT.

Market capitalisation S$484.4 million (based on market closing price of S$0.46 on 15 March 2017).

## DISTRIBUTION OF UNITHOLDINGS
(As at 15 March 2017)

| Size of Unitholdings | No. of Unitholders | Percentage of Unitholders (%) | No. of Units | Percentage of Units in Issue (%) |
|---|---|---|---|---|
| 1 - 99 | 107 | 0.87 | 5,571 | 0.00 |
| 100 - 1,000 | 1,064 | 8.66 | 973,559 | 0.09 |
| 1,001 - 10,000 | 5,251 | 42.72 | 28,439,205 | 2.70 |
| 10,001 - 1,000,000 | 5,825 | 47.40 | 305,643,421 | 29.03 |
| 1,000,001 and above | 43 | 0.35 | 718,021,774 | 68.18 |
| **TOTAL** | **12,290** | **100.00** | **1,053,083,530** | **100.00** |

## TWENTY LARGEST UNITHOLDERS
(As at 15 March 2017)

| No. | Name | No. of Units | % |
|---|---|---|---|
| 1 | Citibank Nominees Singapore Pte Ltd | 154,378,708 | 14.66 |
| 2 | DBS Nominees (Private) Limited | 93,775,997 | 8.90 |
| 3 | United Overseas Bank Nominees (Private) Limited | 88,611,910 | 8.41 |
| 4 | HSBC (Singapore) Nominees Pte Ltd | 84,563,289 | 8.03 |
| 5 | RHB Securities Singapore Pte Ltd | 58,632,519 | 5.57 |
| 6 | Raffles Nominees (PTE) Limited | 46,879,058 | 4.45 |
| 7 | Sabana Real Estate Investment Management Pte Ltd | 21,242,726 | 2.02 |
| 8 | Maybank Nominees (Singapore) Private Limited | 20,000,000 | 1.90 |
| 9 | DBS Vickers Securities (Singapore) Pte Ltd | 16,976,666 | 1.61 |
| 10 | ABN AMRO Nominees Singapore Pte Ltd | 16,853,264 | 1.60 |
| 11 | DBSN Services Pte. Ltd. | 15,148,345 | 1.44 |
| 12 | UOB Kay Hian Private Limited | 11,523,422 | 1.09 |
| 13 | OCBC Nominees Singapore Private Limited | 9,456,544 | 0.90 |
| 14 | Meren Pte Ltd | 8,600,000 | 0.82 |
| 15 | Maybank Kim Eng Securities Pte. Ltd. | 8,565,350 | 0.81 |
| 16 | Phillip Securities Pte Ltd | 6,315,972 | 0.60 |
| 17 | CIMB Securities (Singapore) Pte. Ltd. | 5,968,321 | 0.57 |
| 18 | DB Nominees (Singapore) Pte Ltd | 5,758,274 | 0.55 |
| 19 | OCBC Securities Private Ltd | 4,712,386 | 0.45 |
| 20 | Lee Ai Leng | 3,834,000 | 0.36 |
| | **TOTAL** | **681,796,751** | **64.74** |

# Statistics of Unitholdings (continued)

## UNITHOLDINGS OF THE DIRECTORS OF THE MANAGER

(As recorded in the Register of Directors' Unitholdings as at 21 January 2017)

| Directors | Direct interest No. of Units | %[1] | Deemed interest No. of Units | %[1] |
|---|---|---|---|---|
| Steven Lim Kok Hoong | – | – | – | – |
| Yong Kok Hoon (2) | – | – | 1,050,000 | 0.14 |
| Kevin Xayaraj (3) | – | – | 27,227,112 | 3.68 |
| Henry Chua Tiong Hock | – | – | – | – |
| Ng Shin Ein | – | – | – | – |

**Notes:**

(1) The percentage interest is based on total issued Units of 739,791,059 as at 21 January 2017.

(2) Yong Kok Hoon is deemed to have an interest in the Units held by his spouse, Ong Lee Choo. Subsequent to the issuance of Rights Units on 25 January 2017, Mr Yong's deemed interest became 1,491,000 Units (0.14% based on 1,050,503,303 Units in issue on 25 January 2017 and 1,053,083,530 Units in issue on 15 March 2017.)

(3) Kevin Xayaraj is deemed to have an interest in the Units held by Sabana Real Estate Investment Management Pte. Ltd. by virtue of Section 7 of the Companies Act. Subsequent to the issuance of Rights Units on 25 January 2017, Mr Xayaraj's deemed interest became 38,662,499 Units (3.68% based on 1,050,503,303 Units in issue). As at 15 March 2017, subsequent to the issuance of 2,580,227 management fee Units for 4Q 2016, Mr Xayaraj's deemed interest became 41,242,726 Units (3.92% based on 1,053,083,530 Units in issue.)

## SUBSTANTIAL UNITHOLDERS

(As recorded in the Register of Substantial Unitholdings as at 15 March 2017)

| Substantial Unitholders | Direct interest No. of Units | %[1] | Deemed interest No. of Units | %[1] |
|---|---|---|---|---|
| Singapore Enterprises Private Limited | 55,461,644 | 5.27 | – | – |
| Vibrant Group Limited (2) | 13,135,119 | 1.25 | 96,704,370 | 9.18 |
| Vibrant Capital Pte Ltd (3) | – | – | 109,839,489 | 10.43 |
| Lian Hup Holdings Pte Ltd (4) | – | – | 109,839,489 | 10.43 |
| Khua Hock Su (5) | 1,745,180 | 0.17 | 109,839,489 | 10.43 |
| Khua Kian Keong (6) | 18,442,960 | 1.75 | 109,839,489 | 10.43 |
| Wealthy Fountain Holdings Inc (7) | 43,943,000 | 4.18 | – | – |
| Shanghai Summit Pte Ltd (7) | – | – | 43,943,000 | 4.18 |
| Tong Jinquan (7) | 21,075,200 | 2.01 | 43,943,000 | 4.18 |
| e-Shang Infinity Cayman Limited (8) | 52,705,000 | 5.01 | – | – |
| e-Shang Jupiter Cayman Limited (9) | – | – | 52,705,000 | 5.01 |
| ESR Cayman Limited (10) | – | – | 52,705,000 | 5.01 |
| WP OCIM One LLC (10) | – | – | 52,705,000 | 5.01 |
| WP X Investment VI Ltd . (11) | – | – | 52,705,000 | 5.01 |
| Warburg Pincus Private Equity X, L.P. (12) | – | – | 52,705,000 | 5.01 |
| Warburg Pincus X, L.P. (13) | – | – | 52,705,000 | 5.01 |
| Warburg Pincus LLC (14) | – | – | 52,705,000 | 5.01 |
| Warburg Pincus X GP L.P. (15) | – | – | 52,705,000 | 5.01 |
| WPP GP LLC (16) | – | – | 52,705,000 | 5.01 |
| Warburg Pincus Partners, L.P. (17) | – | – | 52,705,000 | 5.01 |
| Warburg Pincus Partners GP LLC. (18) | – | – | 52,705,000 | 5.01 |
| Warburg Pincus & Co. (19) | – | – | 52,705,000 | 5.01 |
| Charles R. Kaye (20) | – | – | 52,705,000 | 5.01 |
| Joseph P. Landy (20) | – | – | 52,705,000 | 5.01 |

# Statistics of Unitholdings (continued)

**Notes:**

(1) The percentage interest is based on total issued Units of 1,053,083,530 as at 15 March 2017.

(2) Vibrant Group Limited ("Vibrant Group") is deemed to have an interest in the Units held by Singapore Enterprises Private Limited ("Singapore Enterprises") and Sabana Real Estate Investment Management Pte. Ltd. ("SREIM").

(3) Vibrant Capital Pte Ltd ("Vibrant Capital") is deemed to have an interest in the Units held by Vibrant Group, Singapore Enterprises and SREIM.

(4) Lian Hup Holdings Pte Ltd ("Lian Hup") is deemed to have an interest in the Units held by Vibrant Capital, Vibrant Group, Singapore Enterprises and SREIM.

(5) Khua Hock Su is deemed to have an interest in the Units held by Lian Hup, Vibrant Capital, Vibrant Group, Singapore Enterprises and SREIM.

(6) Khua Kian Keong is deemed to have an interest in the Units held by Lian Hup, Vibrant Capital, Vibrant Group, Singapore Enterprises and SREIM.

(7) Tong Jinquan is the sole shareholder of Shanghai Summit Pte Ltd which is the sole shareholder of Wealthy Fountain Holdings Inc and accordingly, is deemed to be interested in the Units which Wealthy Fountain Holdings Inc holds.

(8) e-Shang Infinity Cayman Limited, a company established in the Cayman Islands, is a wholly-owned subsidiary of e-Shang Jupiter Cayman Limited ("ES Jupiter"), a company established in the Cayman Islands.

(9) ES Jupiter, a company established in the Cayman Islands, is a 95.2% owned subsidiary of ESR Cayman Limited ("ESR"), a company established in the Cayman Islands.

(10) WP OCIM One LLC ("WP OCIM"), a Delaware limited liability company, holds approximately 39.9% of the issued share capital of ESR.

(11) WP X Investment VI Ltd. ("WP X IVI"), a company established in the Cayman Islands, is the sole member of WP OCIM.

(12) Warburg Pincus Private Equity X, L.P., a Delaware limited partnership, owns approximately 96.9% of WP X IVI.

(13) Warburg Pincus X, L.P., ("WPXGP"), a Delaware limited partnership, is the general partner of Warburg Pincus Private Equity X, L.P., together with its affiliated partnership ("WPX").

(14) Warburg Pincus LLC ("WP LLC"), a New York limited liability company, is the manager of WPX.

(15) Warburg Pincus X GP L.P. ("WP X GP LP"), a Delaware limited partnership, is the general partner of WPXGP.

(16) WPP GP LLC ("WPP GP"), a Delaware limited liability company, is the general partner of WP X GP LP.

(17) Warburg Pincus Partners, L.P. ("WP Partners"), a Delaware limited partnership, is the managing member of WPP GP.

(18) Warburg Pincus Partners GP LLC ("WP Partners GP"), a Delaware limited liability company, is the general partner of WP Partners.

(19) Warburg Pincus & Co. ("WP"), a New York general partnership, is the managing member of WP Partners GP.

(20) Charles R. Kaye and Joseph P. Landy are each Managing General Partners of WP and Managing Members and Co-Chief Executive Officers of WP LLC and deemed to control the Warburg Pincus entities. Charles R. Kaye and Joseph P. Landy disclaim beneficial ownership of all shares held by the Warburg Pincus entities.

## FREE FLOAT

Under Rule 723 of the Listing Manual, a listed issuer must ensure that at least 10.00% of its listed securities are at all times held by the public.

Based on information available to the Manager as at 15 March 2017, 76.33% of the Units in Sabana REIT are held in the hands of public. Accordingly, Rule 723 of the Listing Manual has been complied with.

# Notice of Annual General Meeting

**SABANA SHARI'AH COMPLIANT INDUSTRIAL REAL ESTATE INVESTMENT TRUST**
(a real estate investment trust constituted on 29 October 2010 under the laws of the Republic of Singapore)

Managed by Sabana Real Estate Investment Management Pte. Ltd.
(Company Registration No. 201005493K)

**NOTICE IS HEREBY GIVEN** that the Annual General Meeting of the holders of units of Sabana Shari'ah Compliant Industrial Real Estate Investment Trust ("**Sabana REIT**" and the holders of units of Sabana REIT, "**Unitholders**") will be held at Suntec Singapore Convention & Exhibition Centre, Hall 404, Level 4 at 1 Raffles Boulevard, Suntec City, Singapore 039593 on Friday, 28 April 2017 at 9.00 a.m., to transact the following business:

**(A) AS ORDINARY BUSINESS**

1. To receive and adopt the Report of the Trustee issued by HSBC Institutional Trust Services (Singapore) Limited, as trustee of Sabana REIT (the "**Trustee**"), the Statement by the Manager issued by Sabana Real Estate Investment Management Pte. Ltd., as manager of Sabana REIT (the "**Manager**"), the Audited Financial Statements of Sabana REIT for the financial year ended 31 December 2016 and the Auditors' Report thereon.
**(Ordinary Resolution 1)**

2. To re-appoint KPMG LLP as Auditors of Sabana REIT and to hold office until the conclusion of the next Annual General Meeting of Sabana REIT, and to authorise the Manager to fix their remuneration.
**(Ordinary Resolution 2)**

**(B) AS SPECIAL BUSINESS**

To consider and, if thought fit, to pass the following Ordinary Resolution, with or without any modifications:

3. That authority be and is hereby given to the Manager, to

(a) (i) issue units in Sabana REIT ("**Units**") whether by way of rights, bonus or otherwise; and/or

(ii) make or grant offers, agreements or options (collectively, "**Instruments**") that might or would require Units to be issued, including but not limited to the creation and issue of (as well as adjustments to) securities, warrants, debentures or other instruments convertible into Units,

at any time and upon such terms and conditions and for such purposes and to such persons as the Manager may in its absolute discretion deem fit; and

# Notice of Annual General Meeting

(b) issue Units in pursuance of any Instrument made or granted by the Manager while this Resolution was in force (notwithstanding that the authority conferred by this Resolution may have ceased to be in force at the time such Units are issued),

provided that:

(1) the aggregate number of Units to be issued pursuant to this Resolution (including Units to be issued in pursuance of Instruments made or granted pursuant to this Resolution) shall not exceed fifty per cent. (50%) of the total number of issued Units (excluding treasury Units, if any) (as calculated in accordance with sub-paragraph (2) below), of which the aggregate number of Units to be issued other than on a pro rata basis to Unitholders (including Units to be issued in pursuance of Instruments made or granted pursuant to this Resolution) shall not exceed twenty per cent. (20%) of the total number of issued Units (excluding treasury Units, if any) (as calculated in accordance with sub-paragraph (2) below);

(2) subject to such manner of calculation as may be prescribed by Singapore Exchange Securities Trading Limited (the "**SGX-ST**") for the purpose of determining the aggregate number of Units that may be issued under sub-paragraph (1) above, the total number of issued Units (excluding treasury Units, if any) shall be based on the total number of issued Units (excluding treasury Units, if any) at the time this Resolution is passed, after adjusting for:

   (a) any new Units arising from the conversion or exercise of any Instruments which are outstanding at the time this Resolution is passed; and

   (b) any subsequent bonus issue, consolidation or subdivision of Units;

(3) in exercising the authority conferred by this Resolution, the Manager shall comply with the provisions of the Listing Manual of the SGX-ST for the time being in force (unless such compliance has been waived by the SGX-ST) and the trust deed constituting Sabana REIT dated 29 October 2010 (as amended by the First Supplemental Deed dated 2 December 2010, the First Amending and Restating Deed dated 24 February 2016 and the Second Amending and Restating Deed dated 24 March 2016) (collectively, the "**Trust Deed**") for the time being in force (unless otherwise exempted or waived by the Monetary Authority of Singapore);

(4) unless revoked or varied by the Unitholders in a general meeting, the authority conferred by this Resolution shall continue in force until (i) the conclusion of the next Annual General Meeting of Sabana REIT or (ii) the date by which the next Annual General Meeting of Sabana REIT is required by the applicable law or regulations to be held, whichever is earlier;

# Notice of Annual General Meeting

(5) where the terms of the issue of the Instruments provide for adjustment to the number of Instruments or Units into which the Instruments may be converted in the event of rights, bonus or other capitalisation issues or any other events, the Manager is authorised to issue additional Instruments or Units pursuant to such adjustment notwithstanding that the authority conferred by this Resolution may have ceased to be in force at the time the Instruments or Units are issued; and

(6) the Manager, any director of the Manager ("**Director**") and the Trustee, be and are hereby severally authorised to complete and do all such acts and things (including executing all such documents as may be required) as the Manager, such Director or, as the case may be, the Trustee may consider expedient or necessary or in the interest of Sabana REIT to give effect to the authority conferred by this Resolution.

**(Ordinary Resolution 3)**

(Please see Explanatory Note)

By Order of the Board

**Sabana Real Estate Investment Management Pte. Ltd.**
(Company Registration No: 201005493K)
As Manager of Sabana REIT

**Kevin Xayaraj**
Chief Executive Officer and Executive Director

Singapore
11 April 2017

**Notes:**

1. A Unitholder who is not a relevant intermediary entitled to attend and vote at the Annual General Meeting, is entitled to appoint not more than two proxies to attend and vote in his/her stead. A proxy need not be a Unitholder.

2. Where a Unitholder appoints more than one proxy, the appointments shall be invalid unless he/she specifies the proportion of his/her holding (expressed as a percentage of the whole) to be represented by each proxy.

# Notice of Annual General Meeting

3. A Unitholder who is a relevant intermediary entitled to attend the Annual General Meeting and vote is entitled to appoint more than one proxy to attend and vote instead of the Unitholder, but each proxy must be appointed to exercise the rights attached to a different Unit or Units held by such Unitholder. Where such Unitholder appoints more than one proxy, the appointments shall be invalid unless the Unitholder specifies the number of Units in relation to which each proxy has been appointed.

   "**Relevant intermediary**" means:

   (a) a banking corporation licensed under the Banking Act (Cap. 19) or a wholly-owned subsidiary of such a banking corporation, whose business includes the provision of nominee services and who holds Units in that capacity;

   (b) a person holding a capital markets services licence to provide custodial services for securities under the Securities and Futures Act (Cap. 289) and who holds Units in that capacity; or

   (c) the Central Provident Fund Board ("**CPF Board**") established by the Central Provident Fund Act (Cap. 36), in respect of Units purchased under the subsidiary legislation made under that Act providing for the making of investments from the contributions and interest standing to the credit of members of the Central Provident Fund, if the CPF Board holds those Units in the capacity of an intermediary pursuant to or in accordance with that subsidiary legislation.

4. The proxy form must be deposited at the office of Sabana REIT's Unit Registrar, Boardroom Corporate & Advisory Services Pte. Ltd., 50 Raffles Place, #32-01 Singapore Land Tower, Singapore 048623 not later than 9.00 a.m. on 25 April 2017, being 72 hours before the time fixed for the Annual General Meeting.

5. By submitting an instrument appointing a proxy(ies) and/or representative(s) to attend, speak and vote at the Annual General Meeting and/or any adjournment thereof, a Unitholder (i) consents to the collection, use and disclosure of the Unitholder's personal data by Sabana REIT, the Trustee or the Manager (or their respective agents) for the purpose of processing and administration by Sabana REIT, the Trustee or the Manager (or their respective agents) of proxies and representatives appointed for the Annual General Meeting (including any adjournment thereof) and the preparation and compilation of the attendance lists, minutes and other documents relating to the Annual General Meeting (including any adjournment thereof), and in order for Sabana REIT, the Trustee or the Manager (or their respective agents) to comply with any applicable laws, listing rules, regulations and/or guidelines (collectively, the "**Purposes**"), (ii) warrants that where the Unitholders discloses the personal data of the Unitholder's proxy(ies) and/or representative(s) to Sabana REIT, the Trustee or the Manager (or their respective agents), the Unitholder has obtained the prior consent of such proxy(ies) and/or representative(s) for the collection, use and disclosure by Sabana REIT, the Trustee or the Manager (or their respective agents) of the personal data of such proxy(ies) and/or representative(s) for the Purposes, and (iii) agrees that the Unitholder will indemnify Sabana REIT, the Trustee or the Manager (or their respective agents) in respect of any penalties, liabilities, claims, demands, losses and damages as a result of the Unitholder's breach of warranty.

# Notice of Annual General Meeting

**Explanatory Note:**

Ordinary Resolution 3, if passed, will empower the Manager from the date of this Annual General Meeting until (i) the conclusion of the next Annual General Meeting of Sabana REIT, (ii) the date by which the next Annual General Meeting of Sabana REIT is required by the applicable regulations to be held, or (iii) the date on which such authority is revoked or varied by the Unitholders in a general meeting, whichever is the earliest, to issue Units, to make or grant Instruments and to issue Units pursuant to such Instruments, up to a number not exceeding 50% of which up to 20% may be issued other than on a pro rata basis to Unitholders (in each case, excluding treasury Units, if any).

Ordinary Resolution 3 above, if passed, will empower the Manager from the date of this Annual General Meeting until the date of the next Annual General Meeting of Sabana REIT, to issue Units as either full or partial payment of fees which the Manager is entitled to receive for its own account pursuant to the Trust Deed.

For determining the aggregate number of Units that may be issued, the percentage of issued Units will be calculated based on the issued Units at the time Ordinary Resolution 3 above is passed, after adjusting for new Units arising from the conversion or exercise of any Instruments which are outstanding at the time this Resolution is passed and any subsequent bonus issue, consolidation or subdivision of Units.

Fund-raising by issuance of new Units may be required in instances of property acquisitions or debt repayments. In any event, if the approval of Unitholders is required under the Listing Manual of the SGX-ST and the Trust Deed or any applicable laws and regulations in such instances, the Manager will then obtain the approval of Unitholders accordingly.

**Important Notice**

The value of Units and the income derived from them, if any, may fall or rise. Units are not obligations of, deposits in, or guaranteed by, the Manager or any of its affiliates. An investment in Units is subject to investment risks, including the possible loss of the principal amount invested.

Investors should note that they have no right to request the Manager to redeem or purchase their Units for so long as the Units are listed on the SGX-ST. It is intended that Unitholders may only deal in their Units through trading on the SGX-ST. The listing of the Units on the SGX-ST does not guarantee a liquid market for the Units.

The past performance of Sabana REIT is not necessarily indicative of the future performance of Sabana REIT.

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**SABANA SHARI'AH COMPLIANT INDUSTRIAL REAL ESTATE INVESTMENT TRUST**
(a real estate investment trust constituted on 29 October 2010 under the laws of the Republic of Singapore)

Managed by Sabana Real Estate Investment Management Pte. Ltd.
(Company Registration No. 201005493K)

# PROXY FORM

## ANNUAL GENERAL MEETING

(Before completing this form, please read the notes behind)

IMPORTANT:
1. This Proxy Form is not valid for use by CPF investors and shall be ineffective for all intents and purposes if used, or purported to be used by them. CPF investors should contact their respective Agent Banks if they have any queries regarding their appointment as proxies.
2. A relevant intermediary may appoint more than one proxy to attend the Annual General Meeting and vote (please see note 3 for the definition of "relevant intermediary").
3. By submitting an instrument appointing one proxy and/or representative(s), the Unitholder accepts and agrees to the personal data privacy terms set out in the Notice of Annual General Meeting dated 11 April 2017.
4. PLEASE READ THE NOTES TO THE PROXY FORM.

I/We, ________________________________________(Name)_____________________(NRIC/Passport Number)

of ____________________________________________________________________________________ (Address)
being a Unitholder / Unitholders of Sabana Shari'ah Compliant Industrial Real Estate Investment Trust ("Sabana REIT"), hereby appoint:

| Name | Address | NRIC / Passport No. | Proportion of Unitholdings | |
|---|---|---|---|---|
| | | | No. of Units | % |
| | | | | |

and / or (delete as appropriate)

| Name | Address | NRIC / Passport No. | Proportion of Unitholdings | |
|---|---|---|---|---|
| | | | No. of Units | % |
| | | | | |

or failing him/her/them, the Chairman of the Annual General Meeting ("AGM"), as my/our proxy/proxies to attend and vote for me/us on my/our behalf at the AGM of Sabana REIT to be held at Suntec Singapore Convention & Exhibition Centre, Hall 404, Level 4 at 1 Raffles Boulevard, Suntec City, Singapore 039593 on Friday, 28 April 2017 at 9.00 a.m. and at any adjournment thereof.

I/We direct my/our proxy/proxies to vote for or against the resolutions to be proposed at the AGM as indicated hereunder. If no specific direction as to voting is given, the proxy/proxies may vote or abstain from voting at his/her/their discretion, as his/they may on any other matter arising at the AGM.

| No. | Ordinary Resolutions | No. of votes For* | No. of votes Against* |
|---|---|---|---|
| **ORDINARY BUSINESS** | | | |
| 1 | To receive and adopt the Report of the Trustee, the Statement by the Manager, the Audited Financial Statements of Sabana REIT for the financial year ended 31 December 2016 and the Auditors' Report thereon. | | |
| 2 | To re-appoint KPMG LLP as Auditors of Sabana REIT and to authorise the Manager to fix their remuneration. | | |
| **SPECIAL BUSINESS** | | | |
| 3 | To authorise the Manager to issue Units and to make or grant convertible instruments. | | |

* Voting will be conducted by poll. If you wish to exercise all your votes "For" or "Against", please tick (P) within the box provided. Alternatively, please indicate the number of votes as appropriate.

Dated this ________ day of __________ 2017

| TOTAL NUMBER OF UNITS HELD |
|---|
| |

_______________________________________________
Signature(s) of Unitholder(s) / Common Seal of Corporate Unitholder

**IMPORTANT: PLEASE READ NOTES TO PROXY FORM ON THE REVERSE PAGE**

**IMPORTANT: PLEASE READ THE NOTES TO PROXY FORM BELOW**

**Notes to Proxy Form**

1. A unitholder of Sabana REIT ("**Unitholder**") who is not a relevant intermediary entitled to attend and vote at the Annual General Meeting ("**AGM**"), is entitled to appoint one or two proxies to attend and vote in his/her stead.

2. Where a Unitholder appoints more than one proxy, the appointments shall be invalid unless he/she specifies the proportion of his/her holding (expressed as a percentage of the whole) to be represented by each proxy.

3. A Unitholder who is a relevant intermediary entitled to attend the AGM and vote is entitled to appoint more than one proxy to attend and vote instead of the Unitholder, but each proxy must be appointed to exercise the rights attached to a different Unit or Units held by such Unitholder. Where such Unitholder appoints more than one proxy, the appointments shall be invalid unless the Unitholder specifies the number of Units in relation to which each proxy has been appointed.

   "**Relevant intermediary**" means:

   (a) a banking corporation licensed under the Banking Act (Cap. 19) or a wholly-owned subsidiary of such a banking corporation, whose business includes the provision of nominee services and who holds Units in that capacity;
   (b) a person holding a capital markets services licence to provide custodial services for securities under the Securities and Futures Act (Cap. 289) and who holds Units in that capacity; or
   (c) the Central Provident Fund Board ("**CPF Board**") established by the Central Provident Fund Act (Cap. 36), in respect of Units purchased under the subsidiary legislation made under that Act providing for the making of investments from the contributions and interest standing to the credit of members of the Central Provident Fund, if the CPF Board holds those Units in the capacity of an intermediary pursuant to or in accordance with that subsidiary legislation.

4. A proxy need not be a Unitholder.

5. A Unitholder should insert the total number of Units held. If the Unitholder has Units entered against his/her name in the Depository Register maintained by The Central Depository (Pte) Limited ("**CDP**") (as defined in Section 130A of the Companies Act (Cap. 50)), he/she should insert that number of Units. If the Unitholder has Units registered in his/her name in the Register of Unitholders of Sabana REIT, he/she should insert that number of Units. If the Unitholder has Units entered against his/her name in the said Depository Register and registered in his/her name in the Register of Unitholders, he/she should insert the aggregate number of Units. If no number is inserted, this Proxy Form (as defined in note 6 below) will be deemed to relate to all the Units held by the Unitholder.

6. The instrument appointing a proxy or proxies (the "**Proxy Form**") must be deposited at the office of Sabana REIT's Unit Registrar, Boardroom Corporate & Advisory Services Pte. Ltd., 50 Raffles Place, #32-01 Singapore Land Tower, Singapore 048623 not later than 9.00 a.m. on 25 April 2017, being 72 hours before the time set for the AGM.

7. Completion and return of the Proxy Form shall not preclude a Unitholder from attending and voting at the AGM.

8. The Proxy Form must be executed under the hand of the appointor or of his/her attorney duly authorised in writing. Where the Proxy Form is executed by a corporation, it must be executed under its common seal or under the hand of its attorney or a duly authorised officer.

9. Where the Proxy Form is signed on behalf of the appointor by an attorney or a duly authorised officer, the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power or authority must (failing previous registration with the Manager) be lodged with the Proxy Form, failing which the Proxy Form may be treated as invalid.

10. The Manager shall be entitled to reject a Proxy Form which is incomplete, improperly completed or illegible or where the true intentions of the appointor are not ascertainable from the instructions of the appointor specified on the Proxy Form. In addition, in the case of Units entered in the Depository Register, the Manager may reject a Proxy Form if the Unitholder, being the appointor, is not shown to have Units entered against his/her name in the Depository Register as at 72 hours before the time appointed for holding the AGM, as certified by CDP to the Manager.

11. All Unitholders will be bound by the outcome of the AGM regardless of whether they have attended or voted at the AGM.

12. On a poll, every Unitholder who is present in person or by proxy shall have one vote for every Unit of which he/she is the Unitholder. There shall be no division of votes between a Unitholder who is present in person and voting at the AGM and his/her proxy(ies). A person entitled to more than one vote need not use all his/her votes or cast them the same way.

# Corporate Information

## SABANA REIT

### REGISTERED ADDRESS
**HSBC Institutional Trust Services (Singapore) Limited**
21 Collyer Quay
#13-02 HSBC Building
Singapore 049320

### TRUSTEE
**HSBC Institutional Trust Services (Singapore) Limited**
21 Collyer Quay
#03-01 HSBC Building
Singapore 049320

### EXTERNAL AUDITORS
**KPMG LLP**
Public Accountants and
Chartered Accountants
16 Raffles Quay
#22-00 Hong Leong Building
Singapore 048581
Phone: (65) 6213 3388
Fax: (65) 6225 4142

Partner-in-charge: Karen Lee
Appointed since financial year ended 31 December 2016

### INTERNAL AUDITORS
**PricewaterhouseCoopers LLP**
8 Cross Street
#17-00 PWC Building
Singapore 048424
Phone: (65) 6236 3388
Fax: (65) 6236 3300

***After October 2016:***
**Ernst & Young Advisory Pte. Ltd.**
One Raffles Quay
North Tower Level 18
Singapore 048583
Phone: (65) 6535 7777
Fax: (65) 6532 7662

### LEGAL ADVISER
**Allen & Gledhill LLP**
One Marina Boulevard
#28-00 Singapore 018989
Phone: (65) 6890 7188
Fax: (65) 6327 3800

### UNIT REGISTRAR
**Boardroom Corporate & Advisory Services Pte. Ltd.**
50 Raffles Place
#32-01 Singapore Land Tower
Singapore 048623
Phone: (65) 6536 5355
Fax: (65) 6536 1360

### BANKERS
**The Hongkong and Shanghai Banking Corporation Limited**

**HSBC Amanah Malaysia Berhad**

**Malayan Banking Berhad (Singapore Branch)**

**United Overseas Bank Limited**

**CIMB Bank Berhad (Singapore Branch)**

### STOCK QUOTES
STI – M1GU
Bloomberg – SSREIT SP
Reuters – SABA.SI
POEMS – SBNR.SG

### WEBSITE
www.sabana-reit.com

## THE MANAGER

**Sabana Real Estate Investment Management Pte. Ltd.**

**Company registration number:**
201005493K
151 Lorong Chuan
#02-03 New Tech Park
Singapore 556741
Phone: (65) 6580 7750
Fax: (65) 6280 4700

### BOARD OF DIRECTORS
**Mr Steven Lim Kok Hoong**
Chairman and Independent Director

**Mr Yong Kok Hoon**
Independent Director

**Ms Ng Shin Ein**
Non-Executive Director

**Mr Henry Chua Tiong Hock**
Non-Executive Director

**Mr Kevin Xayaraj**
CEO and Executive Director

### AUDIT COMMITTEE
**Mr Yong Kok Hoon (Chairman)**
**Mr Steven Lim Kok Hoong**
**Ms Ng Shin Ein**

### NOMINATING AND REMUNERATION COMMITTEE
**Mr Yong Kok Hoon (Chairman)**
**Mr Steven Lim Kok Hoong**
**Mr Henry Chua Tiong Hock**

### COMPANY SECRETARY OF THE MANAGER
**Mr Cho Form Po**

**Sabana Real Estate Investment Management Pte. Ltd.**
(As Manager of Sabana REIT)

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