



PARAGON REIT
(formerly known as SPH REIT)
**(Constituted in the Republic of Singapore
pursuant to a trust deed dated 9 July 2013)**

Condensed Interim Statement of Total Return

For the 12 months period from
1 January 2022 to 31 December 2022

PARAGON REIT

Condensed Interim Statement of Total Return
For the financial period from 1 January 2022 to 31 December 2022

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Report of the Trustee

DBS Trustee Limited (the "Trustee") is under a duty to take into custody and hold the assets of PARAGON REIT (the "Trust") and its subsidiaries (the "Group") in trust for the holders ("Unitholders") of units in the Trust (the "Units"). In accordance with the Securities and Future Act 2001, its subsidiary legislation and the Code on Collective Investment Schemes, the Trustee shall monitor the activities of PARAGON REIT Management Pte. Ltd. (the "Manager") for compliance with the limitations imposed on the investment and borrowing powers as set out in the trust deed dated 9 July 2013 supplemented by the First Supplemental Deed on 7 November 2016, Second Supplemental Deed on 6 January 2017, Third Supplemental Deed on 29 July 2022 and Fourth Supplemental Deed on 3 January 2023 between the Manager and the Trustee in each annual accounting year and report thereon to Unitholders in an annual report.

To the best knowledge of the Trustee, the Manager has, in all material respects, managed the Trust during the financial period covered by the condensed interim statements of total return, set out on pages 6 to 23 in accordance with the limitations imposed on the investment and borrowing powers set out in the Trust Deed.

For and on behalf of the Trustee,

DBS Trustee Limited



Jane Lim

Director

Singapore

10 March 2023



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Independent auditors' report

DBS Trustee Limited (the "Trustee")
(in its capacity as Trustee of PARAGON REIT)

The Board of Directors
PARAGON REIT Management Pte. Ltd. (the "Manager")
(in its capacity as Manager of PARAGON REIT)

Opinion

We have audited the condensed interim statement of total return of PARAGON REIT (the "Trust") and its subsidiaries (the "Group"), which comprise the condensed consolidated interim statement of total return of the Group and the condensed interim statement of total return of the Trust for the period from 1 January 2022 to 31 December 2022 and notes to the condensed interim statement of total return (together, the "Condensed Interim Statement of Total Return").

In our opinion, the accompanying Condensed Interim Statement of Total Return for the period from 1 January 2022 to 31 December 2022 is prepared, in all material respects, in accordance with the recommendations of Statement of Recommended Accounting Practice 7 *Reporting Framework for Investment Funds* ("RAP 7") issued by the Institute of Singapore Chartered Accountants relevant to preparing such condensed interim statement of total return.

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 Condensed Interim Statement of Total Return*' 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 Condensed Interim Statement of Total Return 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.

Emphasis of matter – basis of accounting and restriction on use

We draw attention to Note 3 to the Condensed Interim Statement of Total Return, which describes the basis of accounting. The Condensed Interim Statement of Total Return is prepared in accordance with the terms of reference as agreed with the Manager and the Trustee. As a result, the Condensed Interim Statement of Total Return may not be suitable for any other person or purpose. Our report is intended solely for the use and benefits of the Manager and the Trustee and we do not assume any responsibility to anyone other than the Manager and the Trustee for our work, our report, or for our conclusion which we have reached in our report. Our opinion is not modified in respect of this matter.

Other matter

The Condensed Interim Statement of Total Return of the Group and the Trust for the comparative twelve-month period ended 31 December 2021 has not been audited or reviewed.

Other information

The Manager is responsible for the other information contained in the condensed interim statement of total return. Other information is defined as all information in the condensed interim statement of total return other than the Condensed Interim Statement of Total Return and our auditors' report thereon. We have obtained all other information prior to the date of this auditors' report.

Our opinion on the Condensed Interim Statement of Total Return does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the Condensed Interim Statement of Total Return, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Manager for the Condensed Interim Statement of Total Return

The Manager is responsible for the preparation of the Condensed Interim Statement of Total Return in accordance with RAP 7 issued by the Institute of Singapore Chartered Accountants relevant to preparing such condensed interim statement of total return, for determining the acceptability of the basis of accounting, and for such internal controls as the Manager determines is necessary to enable the preparation of the condensed interim statement of total return that is free from material misstatement, whether due to fraud or error.

In preparing the Condensed Interim Statement of Total Return, the Manager is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the Manager either intends to liquidate the Group or to cease operations of the Group, or has no realistic alternative but to do so.

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

Auditors' responsibilities for the audit of the Condensed Interim Statement of Total Return

Our objectives are to obtain reasonable assurance about whether the Condensed Interim Statement of Total Return as a whole is 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 the Condensed Interim Statement of Total Return.

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 Condensed Interim Statement of Total Return, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
- Obtain an understanding of internal controls relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal controls.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Manager.
- Conclude on the appropriateness of the Manager's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the Condensed Interim Statement of Total Return 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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the condensed consolidated interim statement of total return. 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.

We also provide the Manager with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditors' report is Lim Jek.

A handwritten signature in black ink, appearing to read 'Lim Jek', written over the printed name 'Lim Jek' and the KPMG LLP logo.

KPMG LLP

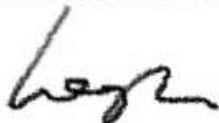
*Public Accountants and
Chartered Accountants*

Singapore
10 March 2023

Condensed Interim Statements of Total Return

	Note	Group		Trust	
		Audited	Unaudited	Audited	Unaudited
		1 Jan 2022 to	1 Jan 2021 to	1 Jan 2022 to	1 Jan 2021 to
		31 Dec 2022	31 Dec 2021	31 Dec 2022	31 Dec 2021
		S\$'000	S\$'000	S\$'000	S\$'000
Gross revenue	5	283,821	279,515	216,759	208,924
Property operating expenses	6	(72,326)	(75,396)	(52,873)	(53,406)
Net property income		211,495	204,119	163,886	155,518
Manager's management fees	7	(21,091)	(20,602)	(21,091)	(20,602)
Investment management fees		(2,963)	(2,976)	-	-
Trustee fees		(599)	(601)	(576)	(575)
Trust expenses	8	(2,255)	(1,429)	(1,742)	(1,061)
Impairment written back/(loss) on trade receivables		815	49	(230)	1,031
Dividend income from subsidiaries		-	-	22,907	28,868
Finance income		1,022	319	5,341	5,242
Finance costs	9	(28,293)	(23,355)	(19,295)	(15,372)
Grant income		-	2,158	-	2,158
Grant expense		-	(2,158)	-	(2,158)
Net income		158,131	155,524	149,200	153,049
Fair value gain on investment properties	10	2,271	34,930	2,308	36,799
Net foreign currency exchange gain/(loss)		4,311	(991)	(6,380)	(6,362)
Total return for the year before taxes and distribution		164,713	189,463	145,128	183,486
Less: income tax		(3,107)	(1,830)	(448)	443
Total return for the year after taxes and before distribution		161,606	187,633	144,680	183,929
Attributable to:					
Unitholders of the Trust		147,907	173,150	132,380	171,629
Perpetual securities holders		12,300	12,300	12,300	12,300
Non-controlling interests		1,399	2,183	-	-
Total return for the year		161,606	187,633	144,680	183,929

Approved on behalf of the Manager,
PARAGON REIT Management Pte. Ltd.



Leong Horn Kee
Chairman
10 March 2023



Eugene Paul Lai Chin Look
Director

1. Purpose of Condensed Interim Statements of Total Return

The Condensed Interim Statements of Total Return, covering 12 months period from 1 January 2022 to 31 December 2022 ("12M 2022"), are prepared for the unitholders' information purposes only.

2. Statement of compliance

The Condensed Interim Statements of Total Return have been prepared in accordance with the recommendations of Statement of Recommended Accounting Practice 7 ("RAP 7") *Reporting Framework for Investment Funds* issued by the Institute of Singapore Chartered Accountants relevant to preparing such condensed interim statements of total return, applying the basis of accounting as disclosed in Note 3.

3. Basis of accounting

The Condensed Interim Statements of Total Return have been prepared based on the significant accounting policies set out in Note 4.

The Condensed Interim Statements of Total Return are presented in Singapore dollars, which is the Trust's functional currency. All financial information presented in Singapore dollars has been rounded to the nearest thousand, unless otherwise stated.

4. Significant accounting policies

(a) Investment properties

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

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

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

On disposal of an investment property, the difference between the net disposal proceeds and its carrying amount is taken to the Condensed Interim Statements of Total Return.

4. Significant accounting policies (Cont'd)

(b) Financial instruments

(i) Impairment

Trade receivables issued are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Group becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

(ii) Classification and subsequent measurement

Non-derivative financial assets

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

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

- **Financial assets at amortised cost**

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

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets: Business model assessment

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

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

4. Significant accounting policies (Cont'd)

(b) Financial instruments (cont'd)

(ii) Classification and subsequent measurement (cont'd)

Financial assets: Business model assessment (cont'd)

- the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

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

Non-derivative financial assets: Assessment whether contractual cash flows are solely payments of principal and interest

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

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

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

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

4. Significant accounting policies (Cont'd)

(b) Financial instruments (cont'd)

(ii) Classification and subsequent measurement (cont'd)

Non-derivative financial assets: Subsequent measurement and gains and losses

Financial assets at amortised cost

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

Non-derivative financial liabilities: Classification, subsequent measurement and gains and losses

Financial liabilities are classified as measured at amortised cost. Other financial liabilities are initially measured at fair value less directly attributable transaction costs. They are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in the Condensed Interim Statements of Total Return.

(iii) Derecognition

Financial assets

The Group derecognises a financial asset when:

- the contractual rights to the cash flows from the financial asset expire; or
- it transfers the rights to receive the contractual cash flows in a transaction in which either:
 - substantially all of the risks and rewards of ownership of the financial asset are transferred; or
 - the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

Transferred assets are not derecognised when the Group enters into transactions whereby it transfers assets recognised in its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets.

Financial liabilities

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire. The Group also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

4. Significant accounting policies (Cont'd)

(b) Financial instruments (cont'd)

(iii) Derecognition (cont'd)

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in the Condensed Interim Statements of Total Return.

Interest rate benchmark reform

When the basis for determining the contractual cash flows of a financial asset or financial liability measured at amortised cost changes as a result of interest rate benchmark reform, the Group updates the effective interest rate of the financial asset or financial liability to reflect the change that is required by the reform. No immediate gain or loss is recognised.

A change in the basis for determining the contractual cash flows is required by interest rate benchmark reform if the following conditions are met:

- the change is necessary as a direct consequence of the reform; and
- the new basis for determining the contractual cash flows is economically equivalent to the previous basis – i.e. the basis immediately before the change.

When changes were made to a financial asset or financial liability in addition to changes to the basis for determining the contractual cash flows required by interest rate benchmark reform, the Group first updates the effective interest rate of the financial asset or financial liability to reflect the change that is required by interest rate benchmark reform. After that, the Group applies the policies on accounting for modifications to the additional changes.

(iv) Impairment

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

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

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

Simplified approach

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

4. Significant accounting policies (Cont'd)

(b) Financial instruments (cont'd)

(iv) Impairment (cont'd)

General approach

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

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

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

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

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

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

Measurement of ECLs

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

Credit-impaired financial assets

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

4. Significant accounting policies (Cont'd)

(b) Financial instruments (cont'd)

(iv) Impairment (cont'd)

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

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

Presentation of allowance for ECLs in the Statements of Financial Position

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

Write-off

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

(v) Offsetting

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

(c) Derivative financial instruments and hedging activities

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

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

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

4. Significant accounting policies (Cont'd)

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

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

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

Hedges directly affected by interest rate benchmark reform

A fundamental review and reform of major interest rate benchmarks is being undertaken globally. The Group has exposure to IBORs on its financial instruments that will be replaced or reformed as part of this market-wide initiative. There is uncertainty as to the timing and the methods of transition for replacing existing benchmark IBORs with alternative rates.

On initial designation of the hedging relationship, the Group formally documents the relationship between the hedging instruments and hedged items, including the risk management objective and strategy in undertaking the hedge, together with the method that will be used to assess the effectiveness of the hedging relationship. The Group makes an assessment, both on inception of the hedging relationship and on an ongoing basis, of whether the hedging instruments are expected to be highly effective in offsetting the changes in the fair value or cash flows of the respective hedged items during the period for which the hedge is designated. For the purpose of evaluating whether the hedging relationship is expected to be highly effective (i.e. prospective effectiveness assessment), the Group assumes that the benchmark interest rate on which the cash flows are based is not altered as a result of IBOR reform.

The Group will cease to apply the amendments to its prospective effectiveness assessment of the hedging relationship when the uncertainty arising from interest rate benchmark reform is no longer present with respect to the timing and the amount of the interest rate benchmark-based cash flows of the hedged item or hedging instrument, or when the hedging relationship is discontinued.

(i) Cash flow hedge

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

The fair value changes on the effective portion of these interest rate swaps are recognised in OCI and accumulated in the hedging reserve, and transferred to the Condensed Interim Statements of Total Return in the periods when the interest expense on the borrowings is recognised in the Condensed Interim Statements of Total Return. The gain or loss relating to the ineffective portion is recognised immediately in the Condensed Interim Statements of Total Return.

4. Significant accounting policies (Cont'd)

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

(ii) Net investment hedges

The Group designates certain derivatives as hedges of foreign exchange risk on its net investment in foreign operations.

When a derivative instrument is designated as the hedging instrument in a hedge of a net investment in a foreign operation, the effective portion of the change in fair value is recognised in OCI and presented in the translation reserve within equity. Any ineffective portion of the change in the fair value is recognised immediately in Condensed Interim Statements of Total Return. The amount recognised in OCI is reclassified to the Condensed Interim Statements of Total Return as a reclassification adjustment on disposal of the foreign operation.

(iii) Derivatives that do not qualify for hedge accounting

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

(d) Revenue recognition

Rental income from operating leases

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

Dividend income

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

Interest income

Interest income is recognised using the effective interest method.

(e) Government grants

Government grants are recognised when there is reasonable assurance that they will be received and the Group comply with the conditions associated with the grants.

(f) Income taxes

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

4. Significant accounting policies (Cont'd)

(f) Income taxes (cont'd)

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

Deferred tax is measured:

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

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

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

Current and deferred taxes are recognised as income or expense in the Condensed Interim Statements of Total Return, except to the extent that the tax arises from a transaction which is recognised directly in unitholders' funds.

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

In the event that there are subsequent adjustments to the taxable income when the actual taxable income of the Trust is finally agreed with the IRAS, such adjustments are taken up as an adjustment to the amount distributed for the next distribution following the agreement with the IRAS. Under the COVID-19 relief measures announced by IRAS, the Trust will have until 31 December 2021 (or any extension allowed) to distribute at least 90% of the annual taxable income derived in the financial year ended 31 August 2020. As at 31 August 2021, the Trust has distributed more than 90% of its deferred taxable income derived from the year ended 31 August 2020.

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

- where the beneficial owners are individuals or Qualifying Unitholders, the Trust will make the distributions to such Unitholders without withholding any income tax; and

4. Significant Accounting Policies (cont'd)

(f) Income taxes (cont'd)

- where the beneficial owners are Qualifying foreign non-individual Unitholders, the Trust will deduct Singapore income tax at the reduced rate of 10% for distributions made up to 31 December 2025, unless concession is extended; or
- where the beneficial owners are Qualifying foreign funds, the Trust will deduct Singapore income tax at the reduced rate of 10% for distributions made during the period from 1 July 2019 to 31 December 2025.

A “Qualifying Unitholder” is a Unitholder who is:

- an individual;
- a company incorporated and tax resident in Singapore;
- a body of persons, other than a company or a partnership, incorporated or registered in Singapore (for example, a town council, a statutory board, a registered charity, a registered co-operative society, a registered trade union, a management corporation, a club and a trade and industry association);
- a Singapore branch of a foreign company;
- an international organisation that is exempt from tax under the International Organisations (Immunities and Privileges) Act; or
- a real estate investment trust exchange-traded fund (“REIT ETFs”) which have been accorded tax transparency treatment.

A “Qualifying foreign non-individual Unitholder” is a person who 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 by that person to acquire the Units are not obtained from that operation in Singapore.

A “Qualifying foreign fund” is one who is a non-resident fund that qualifies for tax exemption under Section 13CA, 13X or 13Y of the Singapore Income Tax Act for income tax purposes and:

- who does not have a permanent establishment in Singapore (other than a fund manager in Singapore); or
- who carries on any operation in Singapore through a permanent establishment in Singapore (other than a fund manager in Singapore), where the funds used to acquire the Units are not obtained from that operation in Singapore.

4. Significant Accounting Policies (cont'd)

(f) Income taxes (cont'd)

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

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

Apart from the above, the Trust receives foreign-sourced income that is tax exempt under Section 13(12) of the Singapore Income Tax Act. Distributions made by the Trust out of such tax exempt income are also exempt from Singapore income tax for all Unitholders.

(g) Expenses

(i) Trustee's fees

Trustee's fees are recognised on an accrual basis using the applicable formula stipulated below.

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

(ii) Manager's management fees

Manager's management fees are recognised on an accrual basis using the applicable formula stipulated below.

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

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

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

For the period from 24 July 2013 (listing date) to 28 February 2017, from 1 September 2017 to 31 May 2019 and from 1 September 2019 to 31 August 2022, the Manager has elected to receive 100% of management fees in units.

4. Significant Accounting Policies (cont'd)

(g) Expenses (cont'd)

(ii) Manager's management fees (cont'd)

The Manager has elected for partial payment of management fees in cash for the half year from 1 March 2017 to 31 August 2017, for the period from 1 June 2019 to 31 August 2019 and for the period from 1 September 2022 to 31 December 2022.

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

(iii) Property operating expenses

Property operating expenses are recognised on an accrual basis. Included in property operating expenses are property management fees which are based on the applicable formula stipulated below.

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

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

The property management fees are payable to the Property Manager in the form of cash and/or units. For the period from 24 July 2013 (listing date) to 31 December 2022, the property management fees are paid in cash.

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

(iv) Finance costs

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

4. Significant Accounting Policies (cont'd)

(h) 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 Chief Executive Officer of the Manager, who is the Group's 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 Chief Executive Officer of the Manager include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

5. Gross Revenue

	Group		Trust	
	Audited	Unaudited	Audited	Unaudited
	1 Jan 2022 to	1 Jan 2021 to	1 Jan 2022 to	1 Jan 2021 to
	31 Dec 2022	31 Dec 2021	31 Dec 2022	31 Dec 2021
	S\$'000	S\$'000	S\$'000	S\$'000
Rental income	268,853	265,123	206,685	200,474
Car park income	6,742	6,136	6,742	6,136
Other income	8,226	8,256	3,332	2,314
	283,821	279,515	216,759	208,924

6. Property Operating Expenses

	Group		Trust	
	Audited	Unaudited	Audited	Unaudited
	1 Jan 2022 to	1 Jan 2021 to	1 Jan 2022 to	1 Jan 2021 to
	31 Dec 2022	31 Dec 2021	31 Dec 2022	31 Dec 2021
	S\$'000	S\$'000	S\$'000	S\$'000
Maintenance and utilities	27,807	25,970	16,348	12,592
Property tax	22,672	22,709	18,792	18,800
Property management fees	12,365	12,352	8,631	7,999
Marketing	3,893	4,474	3,774	4,375
Reimbursements paid to the Property Manager	4,647	4,529	4,647	4,529
Others	942	5,362	681	5,111
	72,326	75,396	52,873	53,406

Reimbursements paid to the Property Manager in respect of agreed employee expenditure incurred by the Property Manager for providing its services as provided for in the Property Management Agreement. There are no employees on the Group's payroll as its daily operations and administrative functions are provided by the Manager and the Property Manager.

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7. Manager's Management Fees

	Group		Trust	
	Audited	Unaudited	Audited	Unaudited
	1 Jan 2022 to	1 Jan 2021 to	1 Jan 2022 to	1 Jan 2021 to
	31 Dec 2022	31 Dec 2021	31 Dec 2022	31 Dec 2021
	S\$'000	S\$'000	S\$'000	S\$'000
Base fee	10,607	10,605	10,607	10,605
Performance fee	10,484	9,997	10,484	9,997
	<u>21,091</u>	<u>20,602</u>	<u>21,091</u>	<u>20,602</u>

8. Trust Expenses

	Group		Trust	
	Audited	Unaudited	Audited	Unaudited
	1 Jan 2022 to	1 Jan 2021 to	1 Jan 2022 to	1 Jan 2021 to
	31 Dec 2022	31 Dec 2021	31 Dec 2022	31 Dec 2021
	S\$'000	S\$'000	S\$'000	S\$'000
Audit fees	431	402	280	236
Non-audit fees	77	74	68	69
Valuation expense	255	86	96	60
Consultancy and other professional fees	809	219	809	215
Other expenses	683	648	489	481
	<u>2,255</u>	<u>1,429</u>	<u>1,742</u>	<u>1,061</u>

9. Finance Costs

	Group		Trust	
	Audited	Unaudited	Audited	Unaudited
	1 Jan 2022 to	1 Jan 2021 to	1 Jan 2022 to	1 Jan 2021 to
	31 Dec 2022	31 Dec 2021	31 Dec 2022	31 Dec 2021
	S\$'000	S\$'000	S\$'000	S\$'000
Interest on borrowing	32,781	16,917	24,095	10,952
Amortisation of upfront fee for loan facility	717	985	430	604
Other financial expenses	71	60	70	58
Cash flow hedges – reclassified from Unitholders' Funds	(5,276)	5,393	(5,300)	3,758
	<u>28,293</u>	<u>23,355</u>	<u>19,295</u>	<u>15,372</u>

The average cost of debt of the Group and the Trust as at the reporting date was 2.19% (12M 2021: 1.78%) and 1.93% (12M 2021: 1.54%) per annum respectively.

10. Investment properties

The carrying amount of the investment properties were based on full valuations performed by independent external valuers. The valuations were based on the discounted cash flow and income capitalisation methods. The fair value for investment properties is categorised as Level 3 under the fair value hierarchy, as inputs used are unobservable and significant to the valuation. The inter-relationship between inputs and fair value are described below.

Key unobservable inputs correspond to:

- Discount rate, which are largely based on the risk-free rate of government bonds in the relevant market, adjusted for a risk premium to reflect the increased risk of investing in the asset class;
- Terminal yield reflects the uncertainty, functional/economic obsolescence and the risk associated with the investment properties;
- Capitalisation rate correspond to a rate of return on investment properties based on the expected income that the property will generate; and
- Market rent rate reflects the expected income that the property will generate.

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

Description	Valuation technique(s)	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurement
Investment properties	Discounted cash flow	Discount rate 6.50% to 8.00% (2021: 6.50% to 8.00%) Terminal Yield 4.00% to 6.50% (2021: 4.00% to 6.50%)	Significant reduction in the capitalisation rate, discount rate and/or terminal yield in isolation would result in a significantly higher fair value of the investment properties.
	Income capitalisation	Capitalisation rate 3.75% to 6.00% (2021: 3.75% to 6.00%) Market rent S\$60.37 psf to S\$236.70 psf (2021: S\$63.11 psf to S\$220.77 psf)	Significant reduction in the market rent rates in isolation would result in a significantly lower fair value of the investment properties.

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11. Segment reporting

	Paragon	The Clementi Mall	The Rail Mall	Figtree Grove	Westfield Marion	Total
	S\$'000	S\$'000	S\$'000	S\$'000	S\$'000	S\$'000
Audited						
<u>12M 2022</u>						
Result						
Gross revenue	167,507	43,119	6,133	15,909	51,153	283,821
Property operating expenses	(39,349)	(12,341)	(1,183)	(3,911)	(15,542)	(72,326)
Segment net property income	128,158	30,778	4,950	11,998	35,611	211,495
Unaudited						
<u>12M 2021</u>						
Result						
Gross revenue	161,264	41,951	5,709	17,086	53,505	279,515
Property operating expenses	(40,223)	(11,929)	(1,254)	(3,943)	(18,047)	(75,396)
Segment net property income	121,041	30,022	4,455	13,143	35,458	204,119