

## REPORTS

## CORPORATE GOVERNANCE

CDL Hospitality Trusts ("**CDLHT**") is a stapled group comprising CDL Hospitality Real Estate Investment Trust ("**H-REIT**") and CDL Hospitality Business Trust ("**HBT**") (the "**Stapled Group**") pursuant to a Stapling Deed dated 12 June 2006 and each Stapled Security consists of one H-REIT Unit and one HBT Unit and is treated as a single instrument. M&C REIT Management Limited (the "**H-REIT Manager**") was appointed manager of H-REIT in accordance with the terms of the Trust Deed dated 8 June 2006 (as amended) between the H-REIT Manager and DBS Trustee Limited (the "**H-REIT Trustee**"). M&C Business Trust Management Limited (the "**HBT Trustee-Manager**") was appointed the trustee-manager of HBT in accordance with the terms of the Trust Deed constituting HBT dated 12 June 2006 (as amended).

The H-REIT Manager has general powers of management over the assets of H-REIT and its main responsibility is to manage H-REIT's assets and liabilities for the benefit of the holders of H-REIT Units. The H-REIT Manager is responsible for formulating the business plans in relation to H-REIT's properties and in this regard, it works closely with the master lessees of H-REIT's properties to implement H-REIT's strategies. In addition, the H-REIT Manager sets the strategic direction of H-REIT and gives recommendations to the H-REIT Trustee on acquisitions, divestment or enhancement of H-REIT's assets in accordance with its stated investment strategies.

Other roles and responsibilities of the H-REIT Manager include:

- Managing, enhancing and maintaining Claymore Connect aimed at achieving high occupancy levels at a good yield.
- Using its best endeavours to ensure that the business of H-REIT is carried on and conducted in a proper and efficient manner and to conduct all transactions with or for H-REIT at arm's length and on normal commercial terms.
- Ensuring that H-REIT complies with the relevant applicable laws and regulations, including the applicable provisions of the Securities and Futures Act, Chapter 289 of Singapore ("**SFA**"), the Listing Rules issued by Singapore Exchange Securities Trading Limited ("**Listing Manual of SGX-ST**"), the Code on Collective Investment Schemes (including the Property Funds Appendix), the conditions set out in the Capital Markets Services ("**CMS**") Licence for REIT Management issued by the Monetary Authority of Singapore ("**MAS**"), the H-REIT Trust Deed, the tax rulings issued by the Inland Revenue Authority of Singapore on the taxation of H-REIT and the holders of the Stapled Securities and all relevant contracts.

The H-REIT Manager holds a CMS licence issued by MAS to conduct real estate investment trust management activities as required under the licensing regime for real estate investment trust managers. In addition, employees of the H-REIT Manager who are engaged in investment management, asset management, financing, marketing and investor relations functions are holders of CMS representative licences.

HBT acts as the master lessee of Dhevanafushi Maldives Luxury Resort (formerly known as Jumeirah Dhevanafushi), a resort in the Maldives, as well as the Japan Hotels acquired by H-REIT. In addition to its function as a master lessee, HBT undertakes certain hospitality and hospitality-related development projects, acquisitions and investments which may not be suitable for H-REIT. HBT is the owner of Hilton Cambridge City Centre, a purpose-built upper upscale hotel located in Cambridge, United Kingdom, which is managed by the Hilton Hotels and Resorts and on 4 May 2017, acquired The Lowry Hotel, a purpose-built 5-star luxury hotel located in Manchester, United Kingdom.

The HBT Trustee-Manager has the dual responsibility of safeguarding the interests of the HBT Unitholders, and managing the business conducted by HBT. The HBT Trustee-Manager has general powers of management over the assets of HBT and its main responsibility is to manage HBT's assets and liabilities for the benefit of the HBT Unitholders. The HBT Trustee-Manager also sets the strategic direction of HBT and works closely with the hotel managers where it is the master lessee or owner of the properties.

Both H-REIT and HBT are externally managed by the H-REIT Manager and the HBT Trustee-Manager (collectively, the "**Managers**") respectively. Accordingly, both H-REIT and HBT do not have personnel of their own. The H-REIT Manager and the HBT Trustee-Manager employ experienced and well-qualified management staff to run the day-to-day operations of H-REIT and HBT. The Directors and employees of the H-REIT Manager and HBT Trustee-Manager are remunerated by the H-REIT Manager and HBT Trustee-Manager and not by H-REIT, HBT or CDLHT.

This report sets out the corporate governance practices of both the Managers as they have adopted a similar set of corporate governance practices, with specific reference to the principles and guidelines of the Code of Corporate Governance 2012 ("**2012 Code**"). Where there are differences in practice from the principles and guidelines under the 2012 Code, the Managers' position in respect of the same is also explained in this report.

# CORPORATE GOVERNANCE

## BOARD MATTERS

### Principle 1: The Board's Conduct of Affairs

#### **Primary Functions of the H-REIT Manager Board and the HBT Trustee-Manager Board**

Both the H-REIT Manager Board and the HBT Trustee-Manager Board are responsible for the overall corporate governance of the Managers respectively, including establishing goals for management and monitoring the achievement of these goals. The Managers' Boards are also responsible for setting strategic business objectives and direction as well as the risk management of H-REIT and HBT, and to ensure that necessary financial, operational and human resources are in place for the Managers to meet their objectives. All Board members of the H-REIT Manager and the HBT Trustee-Manager participate in matters relating to corporate governance including setting corporate values and ethical standards, business operations and risk management, financial performance, engaging key stakeholder groups and the nomination and review of performance of Directors and key personnel.

The H-REIT Manager Board and the HBT Trustee-Manager Board have established a framework for the management of the Managers, H-REIT and HBT, including a system of internal controls and business risk management processes. The Managers' Boards meet quarterly or more often if necessary to (i) review respectively the financial performance of H-REIT and HBT against previously approved budgets, (ii) review the business risks of H-REIT and HBT respectively, (iii) examine liability management, (iv) oversee the sustainability policies and proposals of H-REIT and HBT, and (v) act upon any recommendations and/or comments from both the internal and external auditors of H-REIT and HBT respectively. In assessing business risks, the Managers' Boards also consider the economic environment and risks relevant to the property and hospitality industries. They also review management reports and feasibility studies on individual projects prior to approving major transactions.

#### **Directors' Objective Discharge of Duties and Declaration of Interests**

All the Managers' Directors are required to objectively discharge their duties and responsibilities in the interests of H-REIT and HBT. Directors who are in any way, directly or indirectly, interested in a transaction or proposed transaction will declare the nature of their interests in accordance with the provisions of the Companies Act, Chapter 50 and the SFA, where relevant, and also voluntarily abstain from participating in the deliberation on the same. The Boards of the Managers have each established Nominating and Remuneration Committees ("**NRCs**") which recommend to the Boards of the H-REIT Manager and the HBT Trustee-Manager the appointments/re-appointments to the Board and Board Committees and assess the independence of Directors. When assessing the independence of Directors, the NRCs take into account the individual Director's objectivity, independent thinking and judgement.

#### **Delegation by the H-REIT Manager Board and the HBT Trustee-Manager Board**

The primary functions of the H-REIT Manager Board and the HBT Trustee-Manager Board are either carried out directly by the H-REIT Manager Board and the HBT Trustee-Manager Board or through committees established by the H-REIT Manager Board and the HBT Trustee-Manager Board, namely the Audit and Risk Committees ("**ARCs**") and NRCs (collectively, the "**Committees**").

Specific written terms of reference, duly approved by the H-REIT Manager Board and the HBT Trustee-Manager Board respectively, set out the authority and duties of the Committees. The H-REIT Manager Board and the HBT Trustee-Manager Board review such terms of reference periodically to ensure their continued relevance. The composition of the Committees can be found under the corporate directory section in this Annual Report 2017 ("**Annual Report**").

The delegation of authority by the H-REIT Manager Board and the HBT Trustee-Manager Board to the respective Committees enables the H-REIT Manager Board and the HBT Trustee-Manager Board to achieve operational efficiency by empowering these Committees to decide, review and make recommendations on matters within their respective written terms of reference and/or limits of delegated authority and yet without abdicating their respective overall responsibility.

## REPORTS

## CORPORATE GOVERNANCE

Committees	Composition
Audit & Risk Committee	Foo Say Mui (Bill) Ronald Seah Lim Siang Kenny Kim
Nominating & Remuneration Committee	Ronald Seah Lim Siang Foo Say Mui (Bill) Cheah Sui Ling

Further information on the activities of the ARCs and NRCs can be found in the sections on Principles 4, 5, 7, 8, 11, 12 and 13 in this report.

### Board Processes of the H-REIT Manager and the HBT Trustee-Manager

Meetings of the Board, ARC and NRC of the Managers were held regularly. Four Board Meetings, four ARC Meetings and three NRC Meetings were held by the Managers' Boards and Committees in 2017.

A meeting of the Independent Directors ("IDs") of the H-REIT Manager Board and the HBT Trustee-Manager Board, chaired by the lead independent Director ("Lead ID") was also held in 2017 to discuss matters without the presence of Management and the Board Chairman.

The attendance of the H-REIT Manager Directors and the HBT Trustee-Manager Directors at meetings of the Board and Committees of the Managers, as well as the frequency of such meetings during 2017, are disclosed below. Notwithstanding such disclosure, the H-REIT Manager Board and the HBT Trustee-Manager Board are of the view that the contribution of each Director should not be focused only on his/her attendance at meetings of the Board and/or the Committees.

The proposed meetings for the Board and Committees of the Managers for each new calendar year are set out in a schedule of meetings and notified to all members of the Managers' Boards before the start of each calendar year. Additional meetings are convened as and when circumstances warrant. Records of all such meetings, including discussions on key deliberations and decisions taken, are maintained by the Company Secretaries. The Managers' respective Constitutions allow for meetings of their Board and Committees to be held via teleconferencing. The H-REIT Manager Board and the HBT Trustee-Manager Board as well as their Committees may also make decisions by way of circulating written resolutions.

A Director's contribution also extends beyond the confines of the formal environment of such meetings, through the sharing of views, advice, experience and strategic networking relationships which will further the interests of H-REIT and HBT.

### Directors' Attendance at the AGMs and Meetings of the Board, the Committees and IDs in 2017

	AGMs	Board	ARC	NRC	ID
Number of meetings held in 2017	1	4	4	3	1
<b>Name of Directors</b>					
Wong Hong Ren	1/1	3/4	N. A.	3/3	N. A.
Vincent Yeo Wee Eng	1/1	4/4	N. A.	N. A.	N. A.
Jenny Lim Yin Nee	1/1	2/2 <sup>(1)</sup>	2/2 <sup>(1)</sup>	N. A.	1/1 <sup>(1)</sup>
Ronald Seah Lim Siang	1/1	4/4	4/4	3/3	1/1
Foo Say Mui (Bill)	1/1	4/4	4/4	3/3	1/1
Kenny Kim	1/1	4/4 <sup>(2)</sup>	1/2 <sup>(2)</sup>	N. A.	N. A.
Cheah Sui Ling	N. A.	1/1 <sup>(3)</sup>	N. A.	N. A.	N. A.

(1) Ms Jenny Lim Yin Nee, who ceased as a Director on 26 April 2017, had attended two Board Meetings and two ARC Meetings held prior to her cessation.

(2) Mr Kenny Kim, who was appointed a Director on 25 January 2017 and a member of the ARC on 26 April 2017, had attended four Board Meetings and one ARC Meeting held after his appointment.

(3) Ms Cheah Sui Ling, who was appointed a Director on 18 August 2017, had attended one Board Meeting held after her appointment.

## CORPORATE GOVERNANCE

### H-REIT Manager Board and HBT Trustee-Manager Board Approval

The H-REIT Manager Board and the HBT Trustee-Manager Board have in place an internal guide wherein certain key matters are specifically reserved for approval by the H-REIT Manager Board and the HBT Trustee-Manager Board respectively, and these include decisions on material capital expenditure and undertakings on all acquisition and disposal of properties of H-REIT and HBT, setting of strategic decisions or policies or financial objectives which are, or may be significant, in terms of future profitability or performance of H-REIT and HBT as well as decisions to commence, discontinue or modify significantly any business activity or to enter or withdraw from a particular market sector, corporate or financial restructuring, decisions over new borrowings or significant amendments to the terms and conditions of existing borrowings other than in the ordinary course of business, adoption of corporate governance policies and any other matters which require the H-REIT Manager Board or the HBT Trustee-Manager Board approval as prescribed under the relevant legislations and regulations as well as the provisions of the H-REIT or HBT Trust Deeds. The Management of the H-REIT Manager and the HBT Trustee-Manager are fully apprised of such matters which require the approval of the respective Boards and Committees.

### H-REIT Manager Board and HBT Trustee-Manager Board Orientation and Training

Every newly appointed Director of the Managers receives a formal letter, setting out his general duties and obligations as a Director pursuant to the relevant legislations and regulations. The new Director also receives an induction pack containing information and documents relating to the role and responsibilities of a director, the principal businesses of H-REIT or HBT and their respective subsidiaries, the H-REIT Manager Board and the HBT Trustee-Manager Board processes and corporate governance practices, relevant policies and procedures, as well as a board meeting calendar for the year with a brief of the routine agenda for each meeting.

The Managers also conduct a comprehensive induction programme for newly appointed Directors and for existing Directors pursuant to their appointments to any of the Committees, which seeks to familiarise Directors with CDLHT's business, the Managers' board processes, internal controls and governance practices. The induction programme includes meetings with various key executives of the Management to allow the new Directors to be acquainted with the Management team and to facilitate their independent access to the Management team in future. The programme also includes briefings by the Management team on key areas of the Managers' operations and by each Chairman of the relevant Committees to which the Director is newly appointed to on the roles and responsibilities of the Committees.

Mr Kenny Kim was appointed to the Managers' Boards in January 2017 and the Managers' ARCs in April 2017. Ms Cheah Sui Ling was appointed to the Managers' Boards in August 2017. Both Mr Kim and Ms Cheah were given detailed briefings by the CEO and the CFO in respect of CDLHT's business and operations, as well as its financial matters. The Chairman of the Managers' ARC also briefed Mr Kim on the role and responsibilities of the ARC as set out in its terms of reference. Separately, the Company Secretaries also briefed Mr Kim and Ms Cheah on the internal corporate governance practices and the directors' duties and responsibilities pursuant to relevant legislations.

For a first time Director who has no prior experience as a director of a listed company, in addition to the induction as detailed above, he or she will be encouraged to also attend the Listed Company Director ("LCD") Programme conducted by the Singapore Institute of Directors ("SID") in order to acquire relevant knowledge of what is expected of a listed company director. Completion of the LCD Programme, which focuses on comprehensive training of company directors on compliance, regulatory and corporate governance matters, should provide the first time Director with a broad understanding of the roles and responsibilities of a director of a listed company under the requirements of the Companies Act, Chapter 50, the Listing Manual of SGX-ST and the 2012 Code. The Company Secretaries will also co-ordinate with such Director to endeavour completion of the LCD Programme within one year from his or her date of appointment subject to SID's training schedule and the Director's availability.

The Directors are provided with regular updates and/or briefings from time to time by professional advisers, auditors, Management and the Company Secretaries in areas such as directors' duties and responsibilities, corporate governance practices, relevant legislations and regulations, risk management issues, financial reporting standards and tax laws and practices. The Directors are also regularly kept informed by the Company Secretaries of the availability of appropriate courses, conferences and seminars such as those conducted by The Accounting and Corporate Regulatory Authority ("ACRA"), SGX and SID and the Directors are encouraged to attend such training at the Managers' expense.

Three in-house seminars were conducted by invited external speakers in 2017. The topics that were covered included innovation, cyber risks, data protection and sustainability. The Directors were also briefed on Anti-Money Laundering and Countering Financing of Terrorism, during the year. In addition to the training courses/programmes and briefing updates, Directors are also at liberty to approach Management should they require any further information or clarification concerning the Managers' operations.

## REPORTS

## CORPORATE GOVERNANCE

Principle 2: Board Composition and Guidance**Board Independence**

The Boards of the H-REIT Manager and the HBT Trustee-Manager currently consist of five members each. All members of the Boards, except for the Chief Executive Officer (“**CEO**”), are independent <sup>(1)</sup> directors (“**4 IDs**”), thus providing for a strong and independent element on the Boards capable of exercising objective judgement on corporate affairs of H-REIT and HBT. No individual or small group of individuals dominates the Boards’ decision-making.

When reviewing the independence of the 4 IDs, the Managers’ NRCs had considered the guidelines for independence set out in Guideline 2.3 of the 2012 Code and the Business Trusts Regulations 2005. The 4 IDs are Dr Bill Foo, Mr Ronald Seah, Mr Kenny Kim and Ms Cheah Sui Ling. For purposes of determination of independence, the 4 IDs have also provided confirmation that they are not related to the substantial shareholders of the Managers or stapled security holders of CDLHT. The NRCs are satisfied that there is no other relationship which could affect their independence.

**H-REIT Manager Board / HBT Trustee-Manager Board Composition and Size**

The NRCs review the size and composition of the H-REIT Manager Board and the HBT Trustee-Manager Board and also considered the core competencies of the Directors based on the skills and experience of each Director, and are of the view that the Boards have the critical skills and expertise needed in the strategic direction and planning of the business of H-REIT and HBT. In view of the changes in the board composition during year 2017 including the appointment of additional independent directors, the NRCs are satisfied that there is a good balance of expertise on the Boards, with experience in real estate and hotel related businesses, business and funds management, strategic planning, investment analysis, corporate finance, investment portfolio management, corporate reorganisations, mergers and acquisitions, financial accounting and risk management. There is also gender diversity on the Boards. Most of the IDs have been recently appointed to the Boards, with the longest tenure being not more than five years. Hence, the NRCs, whilst continuing to review its board compositions annually, are of the view that there is no immediate need to refresh the Boards. Further information on the individual Directors’ background, experience and skills can be found in the “Board of Directors” section in the Annual Report.

In consideration of the scope and nature of the operations of H-REIT and HBT, the H-REIT Manager Board and the HBT Trustee-Manager Board are satisfied that the current composition mix and size of the Board provide for sufficient diversity and allow for effective decision-making at the Boards and Committees respectively.

So long as the H-REIT Units remain stapled to HBT Units, in order to avoid any conflict between H-REIT and HBT and to act in the best interest of CDLHT, each of the Directors of the H-REIT Manager Board is also a Director of the HBT Trustee-Manager Board, and vice versa. Further, in line with MAS’s Response to Feedback Received on its Consultation Paper on Enhancements to the Regulatory Regime Governing REITs and REIT Managers, under circumstances where unitholders of H-REIT are not given the right to appoint directors, at least half of the H-REIT Manager Board would have to be independent directors. Similarly, the HBT Trustee-Manager Board would also be required to comply with the provision under Regulation 12 of the Business Trust Regulations 2005 for at least a majority of the Directors of the board of the trustee-manager of a business trust to comprise Directors who are independent from management and business relationships with the trustee-manager. Majority of both the H-REIT Manager Board and the HBT Trustee-Manager Board comprise Independent Directors.

**Non-Executive Directors’ (“NEDs”) Participation**

NEDs of the H-REIT Manager and the HBT Trustee-Manager are encouraged to participate actively at Board meetings in the development of H-REIT’s and HBT’s strategic direction and plans, in the review and monitoring of Management’s performance through periodic reports from the Management, and have unrestricted access to the Management. They also sit on various Committees established by the Boards of the H-REIT Manager and the HBT Trustee-Manager to provide constructive input and the necessary review and monitoring of performance of H-REIT, HBT and the Management. The H-REIT Manager and the HBT Trustee-Manager held respective meetings of the Independent Directors, chaired by the Lead ID in January 2017 (without the presence of Management, the CEO and Board Chairman).

(1) The independence of the Directors in this context refers to their independence from management and business relationships with the H-REIT Manager and the HBT Trustee-Manager and their independence from every substantial shareholder of the HBT Trustee-Manager, except to the extent that the Directors of the H-REIT Manager and are the same as the Directors of the HBT Trustee-Manager.

## CORPORATE GOVERNANCE

### Principle 3: Chairman and Chief Executive Officer of the H-REIT Manager Board and the HBT Trustee-Manager Board

The roles of the Chairman and CEO are separate. The Chairman, Mr Wong Hong Ren, is a non-independent and non-executive Director while the CEO, Mr Vincent Yeo, is an executive Director. This ensures an appropriate balance of power, increased accountability and greater capacity of the H-REIT Manager Board and the HBT Trustee-Manager Board for independent decision-making. The Chairman is not related to the CEO. Mr Wong Hong Ren resigned as Chairman of the H-REIT Manager and the HBT Trustee-Manager on 12 February 2018. The NRCs are reviewing the composition of the Boards and further announcements will be made in due course once a decision has been made on the appointment of a new board chairman.

The Chairman bears primary responsibility for the workings of the H-REIT Manager Board and the HBT Trustee-Manager Board, by ensuring effectiveness on all aspects of its role including setting agenda for both the H-REIT Manager Board and the HBT Trustee-Manager Board meetings with input from Management, ensuring that sufficient allocation of time for thorough discussion of each agenda item at Board meetings, promoting an open environment within the Board room for constructive debate, encouraging the NEDs to speak freely and contribute effectively, and exercising control over the quality, quantity and timeliness of information flow between the H-REIT Manager/HBT Trustee-Manager Board and Management. At annual general meetings and other general meetings of the holders of stapled securities of CDLHT (the “**Stapled Securities Holders**”), he plays a pivotal role in fostering constructive dialogue between Stapled Securities Holders, the Boards of the H-REIT Manager and the HBT Trustee-Manager and Management.

The CEO of the H-REIT Manager and the HBT Trustee-Manager is responsible for working with the H-REIT Manager Board and the HBT Trustee-Manager Board to determine the overall business, investment and operational strategies for H-REIT and HBT. The CEO also works with the other members of the Managers’ management team, master lessees and hotel managers to ensure that the business, investment and operational strategies of H-REIT and HBT are carried out as planned.

In addition, the CEO is responsible for the overall management and planning of the strategic direction of the Stapled Group, including overseeing the acquisition of hospitality and hospitality-related assets and the asset and property management strategies for H-REIT and HBT.

### **Lead Independent Director**

Dr Bill Foo, who was appointed as the Lead ID of the H-REIT Manager and the HBT Trustee-Manager in place of Ms Jenny Lim on 26 April 2017, serves as an intermediary between the independent NEDs and the Chairman. The role of each of the H-REIT Manager Board’s Lead ID and the HBT Trustee Manager Board’s Lead ID is set out under the written terms of reference of the Lead ID which have been approved by the Board of the H-REIT Manager and the Board of the HBT Trustee-Manager.

The Lead ID is available to the Stapled Security Holders of CDLHT should they have concerns and for which contact through the normal channels of the Chairman or the Management has failed to resolve or is inappropriate. No query or request on any matter which requires the Lead ID’s attention was received from Stapled Security Holders in 2017. Under the chairmanship of the then Lead ID, Ms Jenny Lim, a meeting of the Independent Directors of the H-REIT Manager was convened on 25 January 2017 (without the presence of Management or the Chairman) and feedback was provided to the Chairman at the Board meetings held thereafter. Separate meetings of the Independent Directors of both the H-REIT Manager and the HBT Trustee-Manager were also convened in January 2018.

### Principle 4: Board Membership

The compositions of both the H-REIT Manager and the HBT Trustee-Manager Boards are reviewed annually to ensure that they have the appropriate mix of expertise and experience and to further ensure that at least a majority of each of the Boards comprises Independent Directors.

## REPORTS

## CORPORATE GOVERNANCE

**Criteria and Process for Nomination and Selection of New Directors of the H-REIT Manager and the HBT Trustee-Manager**

The NRCs of the Managers have formalised guidelines for Board and Board Committee appointments which include taking into consideration (a) the current Board and Board Committee size, composition mix and core competencies, (b) the candidate's/Director's independence, in the case of an independent NED; (c) the composition requirements for the Board and Committees (if the candidate/Director is proposed to be appointed to any of the Committees); (d) the candidate's/Director's age, gender, track record, experience and capabilities and such other relevant factors as may be determined by the H-REIT Manager Board and the HBT Trustee-Manager Board which would provide an appropriate balance and contribute to the collective skills of the respective Boards; and (e) any competing time commitments if the candidate/Director has multiple board representations and/or other principal commitments.

The NRCs interview shortlisted candidates before formally considering and recommending them for appointment to the Boards and where applicable, to the Committees. Searches for potential candidates are conducted through contacts and recommendations. Shortlisted candidates would be required to furnish their curriculum vitae containing information on their academic/professional qualification, work experience, employment history and experience (if any) as directors of listed companies.

In 2017, Mr Kenny Kim and Ms Cheah Sui Ling were appointed as IDs of the Managers. The NRCs considered the extensive experience of both Mr Kim and Ms Cheah would complement and strengthen the core competencies of the Boards.

**Nominating and Remuneration Committee Composition and Role**

The NRCs comprise three IDs. The Lead ID is one of the independent members of the NRC. Please refer to the 'Corporate Directory' section of this Annual Report for the composition of the NRCs.

The NRCs' responsibilities as set out in its written terms of reference approved by the Board, are to review all Board and Committees composition and membership, board succession plans, review appointments and resignations of Directors and relevant senior management staff, including the CEO and the CFO, review Directors' training and continuous professional development programmes as well as review the remuneration framework and policies of the Managers.

**H-REIT Manager and HBT Trustee-Manager Directors' Time Commitments**

It is recommended under the 2012 Code that the Boards of the H-REIT Manager and the HBT Trustee-Manager consider providing guidance on the maximum number of listed company board representations which each Director of the H-REIT Manager and the HBT Trustee-Manager may hold in order to address competing time commitments faced by directors serving on multiple boards.

Based on an annual analysis of directorships held by the NRCs as well as each Director's confirmation as to whether he/she has any issue with competing time commitments which may impact his/her ability to provide sufficient time and attention to his/her duties as a Director on the respective Boards, the NRCs were satisfied that all Directors are able to carry out and have been adequately carrying out their duties as a Director of the Managers. The NRCs of the H-REIT Manager and the HBT Trustee-Manager further noted that, excluding the directorship held in the H-REIT Manager Board and the HBT Trustee-Manager Board, the number of listed company board representations currently held by the Directors did not exceed four.

Having considered the issue, the Boards do not recommend setting a maximum number of listed company board representations that a Director may hold. They are of the view that the assessment of each individual Director should not be restricted to the number of their respective board representations but should include contributions by the Directors at Board and Committee Meetings. The NRCs do not wish to omit from consideration suitable individuals who, despite the demands on their time, have the capacity to participate and contribute as members of the Boards.

**Key Information on Directors**

Please refer to the "Board of Directors" section in the Annual Report for key information on the H-REIT Manager Directors and the HBT Trustee-Manager Directors and "Directors' Statement", including *inter alia* the academic and professional qualifications, and directorships held currently and in the preceding three years, and other relevant information as well as the stapled securities held by Directors in CDLHT. Currently, no alternate Directors have been appointed in respect of any of the H-REIT Manager Directors and the HBT Trustee-Manager Directors.

## CORPORATE GOVERNANCE

### Board Development

The Directors are provided with updates and/or briefings to assist them to properly discharge their duties. The briefings are conducted either internally with invited speakers, or externally, at the expense of the H-REIT Manager or the HBT Trustee-Manager (as the case may be). A separate programme is established for new Directors, details of which together with details of the internal briefing and updates provided to the Directors in 2017 are set out in the paragraph under the header "H-REIT Manager and the HBT Trustee-Manager Board Orientation and Training". The members of the Board are kept apprised twice yearly on a list of training programmes attended by the Directors during the year.

#### Principle 5: Board Performance

### Board Evaluation Process

The H-REIT Manager Board and the HBT Trustee-Manager Board have in place formal processes to assess the effectiveness of each Board as a whole, the various Board Committees and the contribution by each Director to the effectiveness of the Board and the Board Committees, where applicable. No external facilitator has been used. The performance of each Board was assessed on an annual basis through feedback from individual Directors on areas relating to the Board's competencies and effectiveness. Based on feedback from each individual Director, a consolidated report is prepared and reviewed/evaluated by the NRCs its comments and recommendations for improvements, if any, are presented to the Boards.

Each of the H-REIT Manager Board and the HBT Trustee-Manager Board is of the view that in the financial year, it had operated effectively and each of its members had contributed to its overall effectiveness and is committed to maintain such effectiveness.

The Chairman of the Boards would be fully apprised of the results of the performance evaluation.

#### Principle 6: Access to Information

### Complete, Adequate and Timely Information and Access to Management

Prior to each meeting, members of the H-REIT Manager Board and the HBT Trustee-Manager Board and their Committees are provided with the meeting agenda and the relevant papers submitted by the Management, containing complete, adequate and timely information to enable full deliberation on the issues to be considered at the respective meetings. The Management, the auditors and professional advisers, who can provide additional insight into the matters for discussion, are also invited from time to time to attend such meetings. The Directors of the Managers have separate and independent access to Management.

Draft agendas for the Board and Committee meetings are circulated to the Chairman of each Board and the chairmen of the various Committees, in advance, for them to review and suggest items for the agenda. The members of the Board and various Committees also receive reports on financial, whistle-blowing and related party transactions, where applicable, from the Management. Each of the chairmen of the ARC and NRC from the H-REIT Manager and the HBT Trustee-Manager provides an annual report of the respective Committees' activities during the year under review to the Boards. The minutes of meetings of the Committees are circulated to all Board members.

### Company Secretaries

The Company Secretaries, whose appointment and removal are subject to the approval of the H-REIT Manager Board and the HBT Trustee-Manager Board, attend the Board and Committee meetings and ensures that all Board procedures are followed. The Company Secretaries, together with Management of the H-REIT Manager and the HBT Trustee-Manager, also ensure that the H-REIT Manager, H-REIT, the HBT Trustee-Manager and HBT comply with all applicable statutory and regulatory rules. Together with the Management, the Company Secretaries also assist the Board Chairman, the Board and Committees of the H-REIT Manager and the HBT Trustee-Manager on corporate governance matters and assist to implement and strengthen corporate governance practices and processes, including facilitating orientation for newly appointed Directors of the Managers and appointments to the various Committees, and continuing training and development for the Directors.

On an on-going basis, the Directors of the H-REIT Manager and the HBT Trustee-Manager have separate and independent access to the Company Secretaries, whose duties and responsibilities are clearly defined.

## REPORTS

## CORPORATE GOVERNANCE

**Independent Professional Advice**

The Directors, whether as a group or individually, are entitled to take independent professional advice at the expense of the H-REIT Manager and the HBT Trustee-Manager, in furtherance of their duties and in the event that circumstances warrant the same. The Managers have also put in place internal guidelines allowing for the Directors to seek independent professional advice.

**REMUNERATION MATTERS**Principle 7: Procedures for developing Remuneration Policies

All Directors and employees of the Managers are remunerated by the H-REIT Manager and the HBT Trustee-Manager, as appropriate and in accordance with the remuneration policies set out in the following paragraphs.

The H-REIT Manager and the HBT Trustee-Manager Boards have adopted a Remuneration Framework (which covers all aspects of remuneration) for Directors and key management personnel ("**KMP**") which serves as an overview of the Remuneration Policy.

Principle 8: Level and Mix of Remuneration

All Directors of the H-REIT Manager, including Executive Directors, will receive a fixed base director's fee and the Lead ID will receive an additional fee to reflect his expanded responsibility. The Board Chairman, chairman and members of the ARC and chairman and members of the NRCs also receive additional fees. Such fees are subject to shareholder's approval at the annual general meeting of the H-REIT Manager. The Directors of the HBT Trustee-Manager presently do not receive any Directors' fee.

The Managers' remuneration policy for Directors comprises the following distinct objectives:

- (a) to ensure that the procedure for determining remuneration for Directors is formal and transparent;
- (b) to ensure that the level of remuneration is sufficient to attract and retain Directors to exercise oversight responsibility over the Company; and
- (c) to ensure that no Director is involved in deciding on his own remuneration.

The Managers' remuneration policy for employees comprises the following distinct objectives:

- (a) to ensure that the remuneration packages are competitive in attracting and retaining employees capable of meeting the Managers' needs;
- (b) to ensure that remuneration is commensurate with employees' duties, responsibilities and length of service;
- (c) to build sustainable value-creation to align with longer term shareholder interest;
- (d) to reward employees for achieving corporate and individual performance targets in an equitable way; and
- (e) to enhance retention of key talents to build strong organisational capabilities.

Under the Managers' remuneration policy, the remuneration packages for employees, including the Executive Director, comprises a fixed base component (in the form of a base salary) and a variable component (which includes variable, year-end annual and special bonuses). The variable component is determined by the individual's performance, competitive market practices and information gathered from market surveys conducted by independent human resource consultants as well as the Managers' overall performance in each specific year. Employees are also provided with the standard benefits including insurance and medical benefits. In year 2017, an external human resource consultant, was engaged to provide benchmarking with regard to the CEO/ KMP remuneration.

## CORPORATE GOVERNANCE

Currently, remuneration of the Directors, executive officers and employees are paid in cash only and no compensation is payable to any Director, executive officer or employee of the Managers in the form of options in Stapled Securities or pursuant to any bonus or profit-sharing plan or any other profit-linked agreement or arrangement, under the service contracts.

The Managers currently do not have a share scheme or other forms of long term incentive schemes in place.

### Principle 9: Disclosure on Remuneration

The Directors' fees take into account the Directors' level of contribution and their respective responsibilities, and include Board Committee fees in addition to their base fee. For FY 2017, the aggregate amount of Directors' fees receivable by each of the Directors of the H-REIT Manager Board was less than S\$250,000. These fees will be subject to approval by the shareholder of the H-REIT Manager. No Director is involved in deciding his own remuneration. The Directors of the HBT Trustee-Manager Board did not receive any Directors' fees for FY 2017.

The NRCs had recommended and the Boards of the Managers had assessed and decided to disclose the fee structure for the different roles assumed by the Board and the Board Committees of the Managers as set out in the table below. NRCs and the Boards of the Managers believe that:

- there is no misalignment between the remuneration of the Directors and the interest of Stapled Security Holders, given that their remuneration is not linked to the gross revenue of H-REIT or HBT and are paid out of the own assets of the Managers; and
- there is full and frank disclosure of the total amount of fees paid to the H-REIT Manager and the HBT Trustee-Manager in Note 18 of the Notes to the Financial Statements on page 184 of the Annual Report.
- The structure of the fees payable to Directors of the H-REIT Manager for FY 2017 is as follows:

Appointment	Per Annum
Board of Directors	
- Chairman's Fee	\$60,000*
- Base Fee	\$50,000
Audit and Risk Committee	
- ARC Chairman's Fee	\$70,000
- ARC Member's Fee	\$40,000
Nominating and Remuneration Committee	
- NRC Chairman's Fee	\$10,000
- NRC Member's Fee	\$5,000
Lead Independent Director's Fee	\$10,000

\* Inclusive of Base Fee

The NRCs had recommended and the Boards of the Managers had assessed and decided against the disclosure of the remuneration of the top five executive officers (including the CEO) on a named basis, whether in exact quantum or bands of S\$250,000, and believe that the interests of the Stapled Security Holders will not be prejudiced as a result of such non-disclosure, for the following reasons:

- due to the highly competitive human resource environment for personnel with the requisite knowledge, expertise and experience in the area of real estate investment trusts and business trusts, disclosure of specific remuneration information may give rise to recruitment and talent retention issues;
- the negative impact to H-REIT and HBT if members of the experienced and qualified management team are poached, thereby affecting both the ability to nurture a sustainable talent pool and ensure the smooth continuity of leadership to achieve business and operations objectives of H-REIT and HBT;
- there is no misalignment between the remuneration of the executive officers and the interest of Stapled Security Holders, given that their remuneration is not linked to the gross revenue of the H-REIT or the HBT and are paid out of the own assets of the Managers; and
- there is full and frank disclosure regarding the total amount of fees paid to the H-REIT Manager and the HBT Trustee-Manager in Note 18 of the Notes to the Financial Statements on page 184 of the Annual Report.

## REPORTS

## CORPORATE GOVERNANCE

For each of the H-REIT Manager and the HBT Trustee-Manager, there is no employee who is an immediate family member of a director or the CEO.

Pursuant to their terms of reference, the NRCs shall regularly review and recommend to the Boards, their assessment of the performance of KMPs. The NRC shall also take a holistic approach to the Managers' remuneration policy by considering the contribution and performance of KMPs in light of the performance of CDLHT and prevailing economic and industry conditions. The Managers believe that the establishment of the NRCs will help to ensure that the remuneration policies are more aligned with the interests of Stapled Security Holders.

Principle 10: Accountability

**Accountability of the Board and Management of the H-REIT Manager and the HBT Trustee-Manager**

The H-REIT Manager Board and the HBT Trustee-Manager Board provide the Stapled Securities Holders with quarterly and full year financial results of the H-REIT Group, the HBT Group and the Stapled Group. Unaudited results of the H-REIT Group, the HBT Group and the Stapled Group for the first, second and third quarters are released to Stapled Securities Holders within 45 days of the end of each quarter whilst unaudited full year results of the H-REIT Group, the HBT Group and the Stapled Group are released within 60 days from the financial year end. In presenting the full year and quarterly results of the H-REIT Group, the HBT Group and the Stapled Group, the H-REIT Manager Board and the HBT Trustee-Manager Board aim to provide the Stapled Securities Holders with a balanced and understandable assessment of the performance and financial position of the H-REIT Group, the HBT Group and the Stapled Group, with a commentary at the date of the announcement of the significant trends and competitive conditions of the industry in which CDLHT operates.

For the financial year under review, the CEO and the CFO provided assurance to the ARCs on the integrity of the quarterly unaudited financial statements of the H-REIT Group, the HBT Group and the Stapled Group and the Board in turn provided a negative assurance confirmation to the Stapled Securities Holders in respect of the unaudited financial statements for the first, second and third quarter in accordance with the regulatory requirements.

The Management provides monthly reports covering H-REIT Group and HBT Group's financial performance to all Directors.

Apart from the periodic updates provided by the Management, any member of the H-REIT Manager Board or the HBT Trustee-Manager Board may at any time seek further information from and discuss the respective operations and performance with the Management.

Principle 11: Risk Management and Internal Controls

**Risk Management**

The H-REIT Manager Board and the HBT Trustee-Manager Board recognise that they have overall responsibility to ensure proper financial reporting for the H-REIT Group, the HBT Group and the Stapled Group and effectiveness of H-REIT's and HBT's system of internal controls, including financial, operational, compliance and information technology controls and risk management policies and systems. The H-REIT Manager and the HBT Trustee-Manager ARCs assist the H-REIT Manager Board and the HBT Trustee-Manager Board in providing oversight of risk management and maintaining an effective control environment that reflects both the established risk appetite and the business objectives.

An organisational risk management framework has been established by the Managers to formalise and document the internal processes, many of which are already currently in place, to enable significant business risks affecting H-REIT and HBT to be identified, assessed, monitored, managed and evaluated.

The Managers recognise that the risk management process is an ongoing process and will thus, continuously ensure that the current risk management system and processes are in line with industry practices.

During the financial year under review, the ARCs reported to their respective Boards on the nature and extent of the functions performed by them and made recommendations to the Boards on matters within their scope of duties. The ARC's other duties within their written terms of reference included:

- providing oversight of the risk management framework designed, established and implemented by the Management for the identification, assessment, management and monitoring of risks, and with the objective of embedding risk management into existing management processes;

## CORPORATE GOVERNANCE

- reviewing the overall risk appetite and tolerance as determined using the risk limits and/or parameters established by the Management and approved by the ARCs, which limits and/or parameters are to be reviewed from time to time;
- keeping under review the key strategic risks (and gaps) identified by the Management and discuss with Management the risk acceptance and/or risk mitigation strategies taken in respect of such risks;
- reviewing H-REIT's and HBT's risk profile periodically and assist the Board in the review of H-REIT's and HBT's risk strategy and key risk policies;
- ensuring that Management puts in place procedures for accurate and timely monitoring of large exposures and critical risks so that H-REIT and HBT is capable of responding to current and prospective changes within both H-REIT's and HBT's business and industry and the macroeconomic and financial environment;
- reviewing reports on material breaches of risk limits and the adequacy of the proposed actions taken to rectify such breaches; and
- reviewing, assessing and reporting to the Boards annually on the adequacy and effectiveness of the established risk management framework, especially to address H-REIT's and HBT's financial, operational, compliance and information technology risks (which review may be carried out internally or with the assistance of competent third parties).

### Internal Controls

Having regard to the risks to which the business is exposed, the likelihood of such risks occurring and the costs of mitigating such risks, H-REIT and HBT's internal controls structure have been designed and put in place by Management to provide reasonable assurance against material financial misstatements or loss, for the safeguarding of assets, for the maintenance of proper accounting records, for the provision of financial and other information with integrity, reliability and relevance, and in compliance with applicable laws and regulations. However, no internal controls system can provide absolute assurance in view of inherent limitations of any internal controls system against the occurrence of human and system errors, poor judgement in decision-making, losses, fraud or other irregularities. H-REIT and HBT's internal controls structure includes:

- an external audit programme;
- an internal audit programme;
- a risk management framework established for the identification, assessment, measurement and monitoring of its key risks;
- the establishment and review from time to time of policies and procedures which govern and allow for the monitoring of financial, operational, compliance and information technology controls; and
- a whistle blowing programme.

The Boards have received assurance from the Management on both the H-REIT Group and the HBT Group's financial records and the effectiveness and adequacy of the risk management and internal controls structure. Each Board also receives a separate quarterly representation on the financial information and controls, that nothing has come to Management's attention which may render the financial statements to be false or misleading in any material respect.

Based on the internal controls framework established, the independent annual review and quarterly regulatory and compliance reviews conducted by KPMG Services Pte. Ltd. of H-REIT and HBT's governance and internal controls framework and the written assurance from the CEO and the CFO, the H-REIT Manager Board and the HBT Trustee-Manager Board confirm, with the assistance of the ARCs, that they have reviewed the adequacy and effectiveness of H-REIT and HBT's risk management system and internal controls that address the financial, operational, compliance and information technology controls and concur with the opinion of the ARCs that the risk management system and system of internal controls in place as at 31 December 2017 are adequate and effective to address in all material respects the financial, operational, compliance and information technology risks within the current scope of H-REIT and HBT's business operations and that the financial records have been properly maintained and the financial statements give a true and fair view of the operations and finances of H-REIT and HBT.

## REPORTS

## CORPORATE GOVERNANCE

Principle 12: Audit and Risk Committee ("ARCs")**Composition of the ARCs**

The ARCs of both the H-REIT Manager and the HBT Trustee-Manager comprise three NEDs, all of whom (including the chairman of the ARCs) are independent.

The ARCs' terms of reference further provided that a former partner or director of the Managers' or H-REIT's or HBT's existing external auditors firm or corporation ("**EA**") shall not be appointed to act as a member of the ARC (a) within a period of 12 months commencing on the date of his ceasing to be a partner of the EA; and (b) in any case for as long as he has any financial interest in the EA.

The chairman of the ARCs and all members of the ARCs have audit, accounting or finance background and experience. The H-REIT Manager Board and the HBT Trustee-Manager Board are of the view that the ARCs have sufficient financial management expertise and experience amongst its members to discharge the functions of the ARCs within its written terms of reference approved and adopted by the respective Boards.

**Powers and Duties of the ARCs**

The ARCs are authorised by the H-REIT Manager Board and the HBT Trustee-Manager Board to review and investigate any matters it deems appropriate within its written terms of reference and has direct and unrestricted access to the external auditors and the internal auditors. The ARCs may invite any Director, Management, officer or employee of the H-REIT Manager and/or the HBT Trustee-Manager to attend its meetings. The ARCs are also authorised to engage any firm of accountants, lawyers or other professionals as they see fit to provide independent counsel and advice to assist in the review or investigation on such matters within their terms of reference as they deem appropriate at the expense of the H-REIT Manager and the HBT Trustee-Manager respectively.

The principal responsibility of the ARCs is to assist the H-REIT Manager Board and the HBT Trustee-Manager Board in maintaining a high standard of corporate governance, particularly by providing an independent review of the effectiveness of H-REIT's and HBT's financial reporting process (including reviewing the accounting policies and practices of the H-REIT Group, the HBT Group and the Stapled Group on a consolidated basis) and risk management and key internal controls, including financial, operational, compliance and information technology controls. Other duties within their written terms of reference include, *inter alia*:

- to review significant financial reporting issues and judgements so as to ensure the integrity of the financial statements of the H-REIT Group, the HBT Group and the Stapled Group to be reported to the Stapled Securities Holders;
- to review, assess and report to the Boards annually on the adequacy and effectiveness of the H-REIT's and HBT's internal controls;
- to review the effectiveness of the internal audit function;
- to review the scope and results of the external audit, and the independence and objectivity of the external auditors;
- to review all Interested Party Transactions and/or Related Party Transactions entered into from time to time and ensuring compliance with the relevant provisions of the Listing Manual of SGX-ST, the Property Funds Appendix and the relevant accounting standards;
- to ensure that the H-REIT Group, the HBT Group and the Stapled Group are in compliance with the applicable laws and regulations;
- to oversee the establishment and operation of the whistle-blowing processes; and
- to have oversight on CDLHT's compliance with disclosure requirements relating to sustainability matters.

## CORPORATE GOVERNANCE

### Financial Matters

In the review of the financial statements for FY 2017, the H-REIT Manager ARC and the HBT Trustee-Manager ARC have discussed with Management the accounting principles that were applied and their judgement of items that might affect the integrity of the financial statements. The following significant matters impacting the financial statements were discussed with Management and the external auditors and were reviewed by the H-REIT Manager ARC and the HBT Trustee-Manager ARC:

#### **Significant Matters**

#### **How the ARCs reviewed these matters and what decisions were made**

##### **Valuation of investment properties**

The H-REIT Manager ARC and the HBT Trustee-Manager ARC considered the approach and methodology applied to the valuation model in assessing the valuation of investment properties. The ARCs noted that:

- there was appropriate use of third party valuation expertise;
- sufficient robust challenge was given to management by the external auditors;
- material judgemental assumptions that were used in the valuations were within reasonable parameters; and
- conclusions have been appropriately drawn.

The valuation of the investment properties was also an area of focus by the external auditors. The external auditors have included this item as a key audit matter in their audit report for the financial year ended 31 December 2017. Refer to page 121 of this Annual Report.

##### **Valuation of property, plant and equipment**

The H-REIT Manager ARC and the HBT Trustee-Manager ARC considered the approach and methodology applied to the valuation model in assessing the valuation of property, plant and equipment. The ARCs noted that:

- there was appropriate use of third party valuation expertise;
- sufficient robust challenge was given to management by the external auditors;
- material judgemental assumptions that were used in the valuations were within reasonable parameters; and
- conclusions have been appropriately drawn.

The valuation of property, plant and equipment was an area of focus by the external auditor. The external auditors have included this item as a key audit matter in their audit report for the financial year ended 31 December 2017. Refer to page 121 of this Annual Report.

During the financial year under review, the ARCs of the H-REIT Manager and the HBT Trustee-Manager have established an internal controls system to ensure that all Related Party Transactions and/or Interested Party Transactions are undertaken on normal commercial terms and are not prejudicial to the interests of H-REIT and the holders of H-REIT Units or HBT and the holders of HBT Units.

The H-REIT Manager ARC and the HBT Trustee-Manager ARC held four meetings each during the year respectively and carried out their duties as set out within the terms of reference. The Company Secretaries maintain records of all ARC meetings including records of discussions on key deliberations and decisions taken. The ARCs meet with the external auditors separately without the presence of Management annually.

In performing its duties, the H-REIT Manager ARC and the HBT Trustee-Manager ARC also took guidance from the Audit Committee Guide and the Board Risk Committee Guide both issued by the SID. For the financial year under review, the ARCs conducted a self-assessment of its effectiveness in the discharge of its duties and responsibilities. The assessment was facilitated through the use of a self-assessment checklist ("**ARC Self-Assessment Checklist**"). The ARC Self-Assessment Checklist covered *inter alia*, the responsibilities of the ARCs under their terms of reference.

Based on the self-assessment, the H-REIT Manager ARC and the HBT Trustee-Manager ARC agreed that they had fulfilled their responsibilities and discharged their duties as set out in their terms of reference.

## REPORTS

## CORPORATE GOVERNANCE

The H-REIT Manager ARC and the HBT Trustee-Manager ARC recommended to the Board to approve the full year financial statements.

### External Auditors

The ARCs had evaluated the performance of the external auditors for FY 2017. The ARCs also reviewed the responses furnished by KPMG LLP, based on the sample questionnaire set out in the "Guidance to Audit Committees on Evaluation of Quality of Work Performed by External Auditors" issued by ACRA and Singapore Exchange Limited on 15 July 2010.

Taking cognisance that the external auditors should be free from any business or other relationships with the H-REIT Group, the HBT Group and the Stapled Group that could materially interfere with their ability to act with integrity and objectivity, the ARCs had, in 2017, undertaken a review of the independence of KPMG LLP ("**KPMG**") and gave careful consideration to the H-REIT Group's, the HBT Group's and the Stapled Group's relationships with them during 2017. In determining the independence of KPMG, the ARCs reviewed all aspects of their relationships with them including the processes, policies and safeguards adopted by the H-REIT Group, the HBT Group and the Stapled Group and KPMG relating to audit independence. The ARCs also considered the nature of the provision of the non-audit services in 2017 and the corresponding fees and are of the opinion that such non-audit fees did not impair or threaten the audit independence. Based on the review, the ARCs are of the opinion that KPMG is, and is perceived to be, independent for the purpose of the H-REIT Group's, the HBT Group's and the Stapled Group's statutory audit.

For details of the fees paid and/or payable by the H-REIT Group, the HBT Group and the Stapled Group in respect of audit and non-audit services for FY 2017, please refer to Note 20 of the Notes to the Financial Statements.

In reviewing the nomination of KPMG for re-appointment for the financial year ending 31 December 2018, the ARCs had taken into consideration the Audit Quality Indicators Framework introduced by the ACRA.

The ARCs also considered the following in their review:

- (i) the adequacy and experience of the supervisory and professional staff of KPMG assigned to the audit of the H-REIT Group, the HBT Group and the Stapled Group;
- (ii) the audit engagement partner assigned to the audit;
- (iii) KPMG's past experience in auditing clients in the REIT sector; and
- (iv) the size and complexity of the audit exercise for the H-REIT Group, the HBT Group and the Stapled Group.

KPMG have confirmed that they are registered with ACRA in accordance with Rule 712(2) of the Listing Manual of SGX-ST. The Stapled Group is thus in compliance with Rules 712 and 715 (read with Rule 716) of the Listing Manual of SGX-ST in relation to the appointment of its auditors.

On the basis of the above, the ARCs have recommended to the Board the nomination of KPMG for re-appointment as external auditors of the H-REIT Group, the HBT Group and the Stapled Group at the 2018 Annual General Meetings ("**2018 AGMs**").

### Whistle Blowing Policy

The H-REIT Manager and the HBT Trustee-Manager have in place a whistle blowing policy setting out the procedure where staff of the H-REIT Manager and the HBT Trustee-Manager and other persons can raise in confidence, whether anonymously or otherwise, concerns on possible improprieties relating to accounting, financial reporting, internal controls and auditing matters, without fear of reprisals in any form. The ARCs have the responsibility of overseeing this policy which is administered with the assistance of Management. Under these procedures, arrangements are in place for independent investigation of such matters raised and for appropriate follow up action to be taken.

The H-REIT Manager and the HBT Trustee-Manager are committed to maintaining procedures for the confidential and anonymous submission of reports and the anonymity of whistle-blowers concerned will be maintained where so requested by the whistle-blowers who lodged the report. Investigations into such reports will be handled on a confidential basis to the extent permissible or deemed appropriate under the circumstances, and involve persons who need to be involved in order to properly carry out the investigation and will, on a best efforts basis, be carried out in a timely manner.

## CORPORATE GOVERNANCE

In order to facilitate and encourage the reporting of such matters, the whistleblowing policy, including the dedicated whistleblowing email address at [acchairman@cdlht.com](mailto:acchairman@cdlht.com) and postal correspondence channel are available on CDLHT's website. The whistleblowing policy and procedural arrangements are reviewed by the ARCs on an annual basis.

### Principle 13: Internal Audit

Internal Audit ("IA") plays an important role in monitoring an effective system of internal controls. The IA function of the Singapore hotels' operations is performed by the internal audit team of Millennium & Copthorne International Limited, a related corporation. A summary of the internal auditors' reports is extended to the ARCs, the CEO and the CFO of the H-REIT Manager and the HBT Trustee-Manager. The internal auditors have been directed to meet or exceed the standards set by internationally recognised professional bodies including the International Standards for the Professional Practice of Internal Auditing set by The Institute of Internal Auditors.

The ARCs review the IA plan. Processes are in place such that material control weaknesses raised in the IA reports are dealt with in a timely manner, with outstanding exceptions or recommendations being closely monitored and reported back to the ARCs on a quarterly basis.

The ARCs review the activities of the internal auditors on a quarterly basis and are satisfied that the IA function is independent of the activities which it audits; is adequately resourced; and has appropriate standing within the H-REIT Manager and the HBT Trustee-Manager to perform its role and responsibilities effectively. As the IA function is outsourced, the ARCs' evaluation of the IA function's effectiveness were guided by the ARC's self-assessment checklist as well as through the reports submitted by IA at ARC meetings.

The ARCs met with the internal auditors separately without the presence of Management in January 2018.

### Principle 14: Rights of Stapled Securities Holders

Being committed to good corporate practices, the H-REIT Manager and the HBT Trustee-Manager treat all Stapled Securities Holders fairly and equitably. To facilitate the exercise of Stapled Securities Holders' rights, the H-REIT Manager and the HBT Trustee-Manager ensure that all material information relating to the Stapled Group and its financial performance is disclosed in an accurate and timely manner via SGXNET.

All Stapled Securities Holders are entitled to attend and vote at general meetings in person or by proxy. The rules including the voting procedures are set out in the notice of general meetings. In accordance with the H-REIT Trust Deed (as amended) and HBT Trust Deed (as amended), Stapled Securities Holders who are not relevant intermediaries may appoint not more than two proxies to attend, speak and vote at general meetings in their absence, and Stapled Securities Holders who are relevant intermediaries may appoint more than two proxies to attend, speak and vote at general meetings.

The proxy forms must be deposited at such place or places specified in the notice convening the general meetings not less than forty-eight (48) hours before the time set for the general meetings.

### Principle 15: Communication with Stapled Securities Holders

The H-REIT Manager and the HBT Trustee-Manager ensure that Stapled Securities Holders are notified of all material information in an accurate and timely manner. The H-REIT Manager and the HBT Trustee-Manager notify their investors in advance of the date of release of the financial results of the H-REIT Group, the HBT Group and the Stapled Group via SGXNET. The quarterly and full year financial results of the H-REIT Group, the HBT Group and the Stapled Group are announced within the mandatory period. The financial statements of the H-REIT Group, the HBT Group and the Stapled Group and other presentation materials presented at general meetings, including material and price-sensitive information, are disseminated and publicly released via SGXNET on a timely basis.

All Stapled Securities Holders receive the annual report of CDLHT and the Notice of AGM of Stapled Securities Holders, which notice is also advertised in the press and released via SGXNET. Stapled Securities Holders and investors can access information on CDLHT at its website at [www.cdlht.com](http://www.cdlht.com) which provides, *inter alia*, corporate announcements, press releases and the latest financial results as disclosed by CDLHT on SGXNET.

From time to time, the Management of the H-REIT Manager and the HBT Trustee-Manager hold briefings with analysts and the media to coincide with the release of CDLHT's quarterly and full year financial results. Media presentation slides are also released on SGXNET and made available on the CDLHT's website. In addition, the Management takes an active role in investor relations, meeting local and foreign fund managers regularly as well as participating in roadshows and conferences both locally and overseas.

## REPORTS

## CORPORATE GOVERNANCE

H-REIT's current distribution policy is to distribute at least 90.0% of its taxable income and its tax exempt income (if any), with the actual level of distribution to be determined at the H-REIT Manager's discretion. H-REIT makes distributions to unitholders on a semi-annual basis, with the amount calculated as at 30 June and 31 December each year for the six-month period ending on each of the said dates. Distributions, when paid, will be in Singapore Dollars. As for HBT's distribution policy, the determination to distribute and the quantum of distributions will be made by the HBT Trustee-Manager Board at its sole discretion.

### Principle 16: Conduct of General Meetings of Stapled Securities Holders

At general meetings, Stapled Securities Holders are given the opportunity to communicate their views and are encouraged to ask the H-REIT Manager Board and the HBT Trustee-Manager Board and the Management questions regarding matters affecting H-REIT and HBT. The chairmen of the ARCs, NRCs and the external auditors were present at the last AGMs, and would endeavour to be present at the 2018 AGMs to assist the H-REIT Manager Board and the HBT Trustee-Manager Board in addressing queries raised by the Stapled Securities Holders.

All Stapled Securities Holders are allowed to vote in person or by proxy. As the authentication of a Stapled Securities Holder's identity information and other related integrity issues still remain a concern, the H-REIT Manager and the HBT Trustee-Manager have decided, for the time being, not to implement voting in absentia by mail or electronic means.

Separate resolutions on each substantial issue are put to vote at the general meetings. Detailed information on each item in the agenda of the general meetings is in the explanatory notes to the Notice of the general meetings. The H-REIT Manager and the HBT Trustee-Manager also maintain minutes of the general meetings, which includes the key comments and queries raised by Stapled Securities Holders and the responses from the H-REIT Manager Board, the HBT Trustee-Manager Board, Management and/or the external auditors. The minutes of the general meetings would be made available to Stapled Securities Holders upon request.

Pursuant to Rule 730A(2) of the Listing Manual of SGX, all resolutions proposed at the 2018 AGMs and at any adjournment thereof shall be put to vote by way of poll. In support of greater transparency and to allow for a more efficient voting system, the H-REIT Manager and the HBT Trustee-Manager have introduced electronic poll voting instead of voting by show of hands since the 2014 AGMs. With electronic poll voting, Stapled Securities Holders present in person or represented by proxy at the meeting are entitled to vote on a "one-stapled security, one-vote" basis. The voting results of all votes cast in respect of each resolution will also be instantaneously displayed on-screen at the meeting. The detailed results setting out the number of votes cast for and against each resolution and the respective percentages will be announced via SGXNet after the 2018 AGMs. The detailed procedures for electronic poll voting would be explained at the 2018 AGMs. An external firm will be appointed as scrutineers for the 2018 AGMs voting process, which is independent of the firm appointed to undertake the electronic poll voting process.

### **Corporate Values and Conduct of Business**

The H-REIT Manager Board, the HBT Trustee-Manager Board and Management are committed to conducting business with integrity and consistent with the highest standards of business ethics, and in compliance with all applicable laws and regulatory requirements. The Managers have adopted an internal code of business and ethical conduct which sets out the business principles and practices with respect to matters which may have ethical implications. The code provides a communicable and understandable framework for employees of the Managers to observe principles such as honesty, integrity, responsibility and accountability at all levels of the organisation and in the conduct of business in their relationships with suppliers and amongst employees, including situations where there are potential conflicts of interests.

## CORPORATE GOVERNANCE

### **Confidential Information**

The H-REIT Manager and the HBT Trustee-Manager may in the course of business, collect, process, use or disclose personal data of individuals, including H-REIT and HBT Unitholders, employees, lessees or tenants, and in some cases, guests or employees of hotels owned, third-party hotel owners, agents, partners, suppliers and other individuals. The CDLHT Data Protection Handbook is in place to ensure that the personal data processed is subject to certain legal safeguards and restrictions, in line with the requirements of the Personal Data Protection Act and SFA.

### **Internal Code on Dealings in Securities**

The H-REIT Manager and the HBT Trustee-Manager have in place an internal code on securities trading which sets out the implications of insider trading and provides guidance and internal regulation with regard to dealings in the stapled securities of CDLHT by the Directors and officers of both the Managers. These guidelines prohibit dealing in the stapled securities of CDLHT (a) on short-term considerations, (b) while in possession of unpublished material price-sensitive information in relation to such stapled securities, and (c) during the "closed period", which is defined as two weeks before the date of announcement of results for each of the first, second and third quarter of H-REIT's and HBT's financial year and one month before the date of announcement of the full-year financial results, and ending on the date of the announcement of the relevant results. The Directors and employees of the H-REIT Manager are notified in advance of the commencement of each "closed period" relating to dealing in the stapled securities of CDL Hospitality Trusts.

### **STATEMENT OF POLICIES AND PRACTICES OF HBT**

Apart from the corporate governance practices disclosed above, the HBT Trustee-Manager has prepared a statement of policies and practices in relation to the management and governance of HBT (as described in section 87(1) of the Business Trusts Act, Chapter 31A of Singapore) in respect of FY 2017, which is set out on pages 98 to 103 of this Annual Report.