

# Corporate Governance Report

Far East Hospitality Trust (“Far East H-Trust”) is a hospitality stapled group comprising Far East Hospitality Real Estate Investment Trust (“Far East H-REIT”) and Far East Hospitality Business Trust (“Far East H-BT”).

Far East H-REIT is a real estate investment trust constituted by the trust deed dated 1 August 2012 (as amended, varied or supplemented from time to time) (“Trust Deed”) and entered into between FEO Hospitality Asset Management Pte. Ltd. (in its capacity as the manager of Far East H-REIT) (the “REIT Manager”) and DBS Trustee Limited (in its capacity as the trustee of Far East H-REIT) (the “REIT Trustee”).

Far East H-BT is a business trust constituted by the trust deed dated 1 August 2012 (as amended, varied or supplemented from time to time) and entered into by FEO Hospitality Trust Management Pte. Ltd. (in its capacity as the trustee-manager of Far East H-BT) (the “Trustee-Manager”). Far East H-BT has been dormant since Far East H-Trust was listed on the Mainboard of Singapore Exchange Securities Trading Limited (the “SGX-ST”).

The REIT Manager has been issued a Capital Market Services Licence by the Monetary Authority of Singapore (“MAS”) for real estate investment management (“CMS Licence”) pursuant to the Securities and Futures Act, Chapter 289 of Singapore (the “SFA”) on 10 August 2012.

## **FAR EAST H-TRUST AND CORPORATE GOVERNANCE**

The framework of relevant legislations and guidelines governing Far East H-Trust include:

- (i) The SFA;
- (ii) The Code on Collective Investment Schemes (including Appendix 6 thereon on property funds) (the “CIS Code”, and Appendix 6 of the CIS Code, the “Property Funds Appendix”);
- (iii) The Listing Manual issued by SGX-ST (the “Listing Manual”);
- (iv) The Business Trusts Act, Chapter 31A of Singapore;
- (v) The Code of Corporate Governance 2018 (the “Code”); and
- (vi) Written directions, notices, codes and other guidelines that may be issued by the MAS from time to time.

The REIT Manager and the Trustee-Manager (collectively, the “Managers”) are fully committed to upholding the highest standards of corporate governance, business integrity and professionalism in all its activities. The Managers believe that sound and effective corporate governance policies and practices are essential in achieving sustainable growth, and consequently a trusted, successful and respected Far East H-Trust.

This corporate governance report (“CG Report”) sets out Far East H-REIT’s corporate governance framework and practices with specific reference to the principles and the provisions of the Code, in accordance with Rule 710 of the SGX Listing Rules, and where applicable, the Listing Manual and the Companies Act, Chapter 50 of Singapore (“Companies Act”). For the financial year ended 31 December 2019 (“FY2019”), save as stated in the CG Report, Far East H-REIT has complied in all material aspects with the principles of the Code. Where there are variations from any of the provisions of the Code, an explanation has been provided within this Report, which includes the reason for the variation, as well as the practices adopted to be consistent with the intent and philosophy of the relevant principle in question.

Due to the different legislative and regulatory requirements in relation to a REIT as compared with a business trust, the corporate governance disclosure requirements in relation to the REIT Manager are different from those in relation to the Trustee-Manager.

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## (A) BOARD MATTERS

### **THE BOARD'S CONDUCT OF AFFAIRS**

#### **Principle 1:**

*The company is headed by an effective Board which is collectively responsible and works with Management for the long-term success of the company.*

### **ROLE OF THE BOARD**

Pursuant to the Trust Deed, the board of directors of the REIT Manager (the "Board") is entrusted with the responsibility for the overall management of the REIT Manager and has general powers of management over the assets of Far East H-REIT.

The key roles and responsibilities of the Board are to:

- Set strategic objectives and direction, and provide guidance to the management of the REIT Manager ("Management") in executing those objectives;
- Manage Far East H-REIT's assets and liabilities for the benefit of the stapled securityholders of Far East H-Trust ("Stapled Securityholders");
- Formulate the business plans in relation to Far East H-REIT's properties;
- Recommend to the REIT Trustee on the acquisition, divestment or enhancement of assets of Far East H-REIT in accordance with its stated investment strategy;
- Ensure Management discharges its duties with integrity and accountability, and demonstrate highest level of skills and professionalism;
- Establish a framework of prudent and effective controls which enables risks to be assessed and managed to safeguard the interests of the Stapled Securityholders and the assets of Far East H-Trust;
- Consider sustainability issues such as environmental issues as part of its strategic formulation;
- Ensure that Management maintains sound measures relating to corporate governance, financial regulations and internal policies including the Code of Conduct (further elaborated on page 99 of the CG Report); and
- Consider the perceptions of stakeholders that will affect Far East H-Trust's reputation.

### **BOARD COMMITTEES**

In the discharge of its functions, the Board is supported by three board committees which also serve to ensure that there are appropriate checks and balances. These committees are the Audit and Risk Committee ("ARC"), the Nominating Committee ("NC") and the Remuneration Committee ("RC") (collectively known as "Board Committees"). Each of the Board Committees is chaired by independent directors ("IDs") and reports to the Board. Membership of the various Board Committees is managed to ensure an equitable distribution of responsibilities among Board members, to maximise the effectiveness of the Board and to foster active participation and contribution from Board members. Diversity of experience and appropriate skills are considered in the composition of the respective Board Committees.

Each of the Board Committees has its own written terms of reference and operates under delegated authority from the Board. However, the Board retains overall responsibility for all decisions made by the Board Committees. Information on the ARC, NC and RC can be found in the "Accountability and Audit"; "Board Membership" and "Board Performance"; and "Remuneration Matters" section of this CG Report respectively.

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## **BOARD MEETINGS AND ACTIVITIES**

The Board meets regularly, at least once every quarter, and as required by business imperatives or particular circumstances, to discuss and review business strategies and policies, including any significant acquisition and/or disposal, portfolio performance, business outlook, movement in stapled securityholdings, deliberate growth opportunities of Far East H-REIT, and approve the release of quarterly and full year financial results.

In addition, the IDs schedule to meet as and when required to discuss matters without the presence of Management and the Chairman of the Board. In 2019, the IDs had one such meeting chaired by Mr Willie Cheng, lead independent director ("Lead ID").

As a general rule, Board and Board Committee meeting notices and papers are required to be sent to the Directors and members of Board Committees at least five business days before the meetings. This would also enable any Director who is unable to attend a meeting to provide input and raise queries on the agenda items. Board papers are detailed and give the background, explanatory information, justification, risks and mitigation measures for each agenda item and mandate sought by Management, including, where applicable, relevant budgets, business plans, forecasts and projections. Directors can ask for additional information as needed to make informed decisions. However, papers containing price sensitive information may be tabled at the meetings themselves or discussed without any papers being distributed. All Board and Board Committee papers are kept and disseminated via an electronic board portal, which has proven to be an effective, secure and sustainable form of communication.

Executive officers of Far East Organization, external consultants or advisers who can provide additional insight into the relevant matters at hand may be invited to attend the meetings. The executive officers of Far East Organization will not participate in any decision-making process involving transactions between Far East H-Trust and the Sponsor, comprising Far East Organization and its group of companies ("FEO").

Management recognises that the flow of information on an accurate, complete, adequate and timely manner is critical for the Board to be effective in discharging its duties. At the quarterly Board and ARC meetings, Directors are updated on developments, challenges and changes in the operating environment, including changes in accounting standards, changes in laws and regulations governing the REIT industry, or changes that have a bearing on Far East H-REIT. The Board and Board Committee papers given to the Directors include updates on Far East H-REIT's operating and financial performance, strategic plans, regulatory and compliance updates and any other matters for discussion. On a monthly basis, Management also provides the Board with a brief update on the operating performance of Far East H-Trust, to enable the Board to exercise effective oversight over the Trust.

The Directors of the Board have separate and independent access to Management and the Company Secretary at all times, and they are entitled to request from Management additional information to make informed decisions. The Directors, either individually or as a group, may at the REIT Manager's expense seek independent professional advice where appropriate, to discharge his/her/their duties effectively.

The corporate secretarial agent is Tricor Evatthouse Corporate Services, and the named Company Secretaries are Lin Moi Heyang and Low Mei Wan. They attend to all corporate secretarial matters for the REIT Manager. At least one of the Company Secretaries attends all Board and Board Committee meetings and prepares minutes of meeting proceedings. They assist the Chairmen of the Board and Board Committees in ensuring that Board and Board Committee procedures are followed and that the REIT Manager's Constitution, Terms of Reference of the Board and Board Committees, applicable rules and regulations and best practices are complied with. The Company Secretaries advise the Board on all governance matters. They also work with Management to ensure that Board and Board Committee papers are provided to each Director at least five business days ahead of meetings. Their responsibilities also include assisting the REIT Manager in preparing the announcements to be uploaded on the SGXNET as required under the Listing Manual.

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Where exigencies prevent a Director from attending a Board meeting in person, the Constitution of the Managers permits the Director to participate via audio or video conference. The Board and Board Committees may also make decisions by way of resolutions in writing. In each meeting where matters requiring the Board's approval are to be considered, all members of the Board participate in the discussions and deliberations; and resolutions in writing are circulated to all Directors for their consideration and approval. The exception is where a Director has a conflict of interest in a particular matter in which case, he or she will be required to recuse himself or herself from the deliberations and abstain from voting on the matter. This principle of collective decisions adopted by the Board ensures that no individual influences or dominates the decision-making process.

The number of meetings of the Board, ARC, NC and RC held during FY2019, as well as the attendance of every Director at these meetings and at the last AGM are set out in the table below:

	<b>Board Meetings</b>	<b>Annual General Meeting</b>	<b>ARC Meetings</b>	<b>NC Meetings</b>	<b>RC Meetings</b>
<b>Number of meetings held in FY2019</b>	6	1	4	2	4
<b>Board members</b>					
Wee Kheng Jin	6/6	1/1	N.A.	N.A.	4/4
Willie Cheng Jue Hiang	6/6	1/1	4/4	2/2	N.A.
Kyle Lee Khai Fatt	6/6	1/1	4/4	2/2	4/4
Huang Cheng Eng	6/6	1/1	4/4	N.A.	4/4
Vivienne Lim Hui Bian	6/6	1/1	N.A.	2/2	N.A.
Catherine Lee Khia Yee <sup>1</sup>	4/4	N.A.	N.A.	N.A.	N.A.
<b>Chief Executive Officer</b>					
Gerald Lee Hwee Keong	6/6	1/1	4/4	2/2	4/4

<sup>1</sup> Ms Catherine Lee Khia Yee was appointed as Independent Director, effective 1 July 2019.

N.A. Not applicable

The Board has approved a list of matters reserved for the Board's decision-making. This sets clear directions for Management on matters that must be approved by the Board.

The list of matters reserved for the Board's approval includes, but is not limited to:

- Long term strategy and objectives of Far East H-REIT
- Annual budget and business plans in relation to Far East H-REIT's properties
- Policies to safeguard the interests of the Stapled Securityholders and the assets of Far East H-REIT
- Investment strategy and mandate
- Distribution policy
- Announcements and press releases concerning Far East H-REIT
- Board memberships and other appointments
- Appointment and removal of the Company Secretary

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In fulfilling its responsibilities to Far East H-REIT, the Board has approved a set of financial controls which sets out approval limits for operating expenditures, capital expenditures, procurements, general and administrative expenses and leases as well as arrangements in relation to cheque signatories. Appropriate delegation of authority and approval sub-limits are also provided at management level to facilitate operational efficiency.

## **ORIENTATION AND TRAINING FOR DIRECTORS**

The NC exercises oversight on the orientation, training and professional development of Directors, and also ensures that new Directors are aware of their duties and obligations.

The Board has a comprehensive and structured orientation framework. Newly-appointed Directors attend a familiarisation exercise whereby they undergo a tailored programme to enable them to have a good understanding of Far East H-Trust.

The orientation exercise consists of:

- Management presentations on Far East H-Trust's strategic objectives, business, operations, responsibilities of key management personnel, and financial and governance practices; and
- Site visits to Far East H-Trust's properties (hotels and serviced residences)

In addition to the above, copies of the minutes of immediate past Board and Board Committee meetings are made available to newly-appointed Directors. They are also provided with other materials relating to the Board and Board Committees, including the terms of reference of the various Board Committees on which they are appointed as well as relevant guidelines and policies.

Ms Vivienne Lim, appointed as an Independent Director of Far East H-Trust in July 2018, has completed all modules of the mandatory training provided by the Singapore Institute of Directors ("SID") – the Listed Entity Directors ("LED") programme, Modules 1 to 4, in accordance with SGX Listing Rule 210 (5)(a) which states the requirement for first-time directors of an issuer on the Exchange to undertake training as prescribed by the Exchange. Additionally, Ms Lim has completed LED Module 7 on Nominating Committee Essentials in 2019, as she was appointed as a member of the NC in January 2019, and has also completed all other non-mandatory modules of the programme (LED Modules 5, 6 and 8).

Ms Catherine Lee, Far East H-Trust's newest Independent Director, appointed in July 2019, has commenced the mandatory training programme and completed LED Module 1 in 2019. She is scheduled to complete the remaining LED modules in 2020.

The Board also recognises the importance of continual training and development for its existing Directors so that they can perform their roles on the Board and Board Committees to the best of their abilities. Following their appointment, there is a Continuing Professional Development programme put in place for all Board members, to equip them with the appropriate skills and knowledge required. As part of this programme, Directors undergo ongoing education particularly on relevant new laws, changes to regulations and accounting standards and other industry-related matters. They are briefed about areas such as directors' duties and responsibilities under the Companies Act, Listing Manual, SFA, etc. to enable them to carry out their statutory and fiduciary duties as well as to update and refresh them on matters that may affect and/or enhance their performance as Board members.

Directors are encouraged to participate in industry conferences, seminars, courses and training programmes which are relevant to their duties. Training programmes include those organised by the SID on corporate governance, leadership and industry-related subjects. The Continuing Professional Development programme for Board members comes under the NC's purview, and the REIT Manager funds the training and development programmes for existing and new Board members.

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Apart from courses that the Directors attend and participate in by themselves, the REIT Manager arranged and facilitated the attendance and/or conduct of the following training programmes (which include seminars, conferences and workshops) for its directors in FY2019:

- SID Directors Conference 2019
- SID Listed Entity Directors Program
- SID Corporate Governance Roundup 2019
- Key Regulatory Updates by KPMG

The Board is regularly updated either during Board meetings or at specially convened meetings (with the attendance of professional advisors, consultants, auditors and Management) on areas that may affect Far East H-Trust's business and developments. The Management also provides the Board with timely information through regular updates on financial results, market trends in the hospitality sector, and business developments.

## **BOARD COMPOSITION AND GUIDANCE**

### **Principle 2:**

*The Board has an appropriate level of independence and diversity of thought and background in its composition to enable it to make decisions in the best interests of the company.*

The Board reviews the size and composition of the Board, with a view to ensuring effective decision making by taking into account the scope and nature of the operations of Far East H-Trust.

## **REVIEW OF DIRECTORS' INDEPENDENCE**

The Board presently comprises six directors, five of whom are independent directors and one of whom is a non-independent non-executive director. The composition of the Board therefore complies with Provision 2.3 where majority of the board is made up of non-executive directors and Provision 2.2 where majority of the board is made up of independent directors where the Chairman is not independent. This enables Management to benefit from their invaluable and objective perspectives on issues that are brought before the Board.

The independence of the Directors is reviewed by the NC annually on a formal basis since the formation of the NC on 19 January 2016. The REIT Manager Board was established in 2012, and none of the Directors has served on the Board beyond nine years since the date of his or her first appointment. Additionally, none of the Directors has been a substantial shareholder of the REIT Manager, or substantial Stapled Securityholder of Far East H-REIT.

The Directors complete an annual confirmation of independence, whereby they are required to critically assess their own independence including independence from the major shareholder and management, which the NC takes into account for the purposes of this review. The Board has considered and determined, taking into account the views of the NC, that Mr Willie Cheng, Mr Kyle Lee, Mr Huang Cheng Eng, Ms Vivienne Lim and Ms Catherine Lee have demonstrated independence in character and judgement in the discharge of their responsibilities as directors in FY2019, and is satisfied that each of them has acted with independent judgement. The Board has also assessed the relationships or circumstances which are likely to affect, or could appear to affect, the directors' judgement. Based on the annual review of the directors' independence conducted by the NC, the criteria of independence as set out in the Code and SGX Listing Rule 210 (5)(d), and the declarations by the IDs of their independence, the Board is satisfied that Mr Willie Cheng, Mr Kyle Lee, Mr Huang Cheng Eng, Ms Vivienne Lim and Ms Catherine Lee are independent.

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In FY2019, none of the IDs had any business relationship with the REIT Manager, its related companies, its substantial shareholders or its officers, as well as with Far East H-REIT and its substantial Stapled Securityholders that could interfere, or be reasonably perceived to interfere, with the exercise of the director's independent business judgement in the best interests of Far East H-Trust.

During FY2019, each of the IDs had been independent from the management of the REIT Manager and Far East H-REIT, as well as from every substantial shareholder of the REIT Manager, and every substantial Stapled Securityholder of Far East H-Trust. This is in accordance with the guidance in the Securities and Futures (Licensing and Conduct of Business) Regulations (SFR), Regulation 13E(b)(i).

Mr Wee Kheng Jin (Chairman of the Board) was previously an Executive Director in FEO until his retirement on 31 December 2018, after which he continued his association with the Group as a Senior Advisor. At the same time, Mr Wee had also retired from the boards of all other FEO-related companies, but remained a director of FEO Hospitality Asset Management Pte. Ltd. (the REIT Manager) and FEO Hospitality Trust Management Pte. Ltd. (the Trustee-Manager). The Board has reviewed and is satisfied that, as at the last day of FY2019, Mr Wee Kheng Jin, although being a non-independent director, was able to act in and has acted in the best interests of all the Stapled Securityholders of Far East H-Trust. This is in accordance with the guidance in the Securities and Futures (Licensing and Conduct of Business) Regulations (SFR), Regulation 13E(b)(ii).

## **BOARD DIVERSITY POLICY AND COMPOSITION**

The REIT Manager believes that a balanced Board can provide the diversity of viewpoints and insights that will enhance decision-making. Towards this end, the Board has established a Board Diversity Policy that seeks to have an appropriate level of diversity in its composition, including the dimensions of skills, knowledge and industry experiences, gender, age and tenure.

A diversity of tenure will achieve the progressive renewal of the Board so that there is the continuity of experienced directors as well as the onboarding of new directors to provide fresh perspectives on an ongoing basis. All director appointments will be based on merit, having due regard to the overall balance and effectiveness of the Board.

Under the Board Diversity Policy, the NC will, in reviewing and assessing the composition of the Board and making recommendations to the Board on the appointment of new directors, consider aspects such as professional qualifications, industry and geographic knowledge, skills, length of service, age, gender, and the needs of the trust. The NC will review the structure, size, balance and diversity of the Board annually and propose any changes to the Board to complement the trust's objectives and strategies. In this regard, the NC will review and report to the Board annually the objectives and progress made in achieving an appropriately diverse board composition.

Currently, the Board and its Board Committees comprise directors with an appropriate balance and diversity of skills, experience and knowledge. The Directors have diverse backgrounds in accounting and auditing, business advisory, banking and finance, investment and fund management, construction, real estate development, hospitality services, aviation and tourism marketing, management consulting, technology implementation, corporate governance, strategic planning, and corporate and commercial law. The Directors engage in open and constructive debate and regularly challenge Management on its assumptions and proposals. The Directors also review the performance of Management in meeting agreed goals and objectives, and monitor the reporting of performance. Management has benefited from the Directors' invaluable views and experiences.

In FY2019, the Board had sought to achieve a greater balance of diversity in the aspects of gender, age and professional qualifications, and Ms Catherine Lee was appointed to the Board in July 2019. As a Chartered Accountant with extensive experience in investment and fund management, Ms Lee has brought new perspective to Far East H-Trust. With her appointment, the Board currently has five out of six of its members as independent directors and one-third are female, in addition to the broad range of skills and experience needed for the trust. The Board continues to seek to introduce greater diversity as it progressively reviews the composition of the Board and its Board Committees.

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## **CHAIRMAN AND CHIEF EXECUTIVE OFFICER**

### **Principle 3:**

*There is a clear division of responsibilities between the leadership of the Board and Management, and no one individual has unfettered powers of decision-making.*

The positions of Chairman of the Board and Chief Executive Officer (“CEO”) of the REIT Manager are held by two different individuals in order to maintain effective segregation of duties, ensure an appropriate balance of power and authority, increased accountability and to maintain effective checks and balances. The Chairman of the Board is Mr Wee Kheng Jin, while the CEO of the REIT Manager is Mr Gerald Lee. Mr Wee Kheng Jin is also the Chairman of the Trustee-Manager Board and Mr Gerald Lee is also the CEO of the Trustee-Manager. They are not related to each other and do not have close family ties.

There is a clear separation of the roles and responsibilities between the Chairman and the CEO of the REIT Manager. Mr Wee Kheng Jin leads the Board to ensure its effectiveness on all aspects of its role. He ensures that adequate time is given for discussion of all items at the board meeting, in particular strategic issues. He also facilitates effective contribution of the directors and encourages a culture of openness and debate at board meetings. The Chairman also ensures that the Board works together with integrity and competency, and that the Board engages Management in constructive debate on strategy, business operations, enterprise risk and other plans.

Mr Gerald Lee is principally responsible for the management and conduct of the business of the REIT Manager. He has full executive responsibilities over the business direction and operational decisions in managing Far East H-REIT.

Provision 3.3 of the Code recommends the appointment of an independent director to be the lead independent director in certain circumstances, including where the Chairman is not independent. Mr Willie Cheng has been appointed as the Lead Independent Director. He is also the Chairman of the ARC.

Mr Cheng, as the Lead ID, has held meetings with the IDs without the presence of the non-independent directors and Management as he deemed appropriate or necessary, and provided feedback to the Board Chairman after each meeting.

## **BOARD MEMBERSHIP**

### **Principle 4:**

*The Board has a formal and transparent process for the appointment and re-appointment of directors, taking into account the need for progressive renewal of the Board.*

## **NOMINATING COMMITTEE (NC)**

The Board established its NC on 19 January 2016. The NC members are appointed by the Board from among its members, all of whom (including the Chairman of the NC) are independent directors. The members of the NC are Mr Kyle Lee (Chairman of the NC), Mr Willie Cheng (Lead ID) and Ms Vivienne Lim (appointed with effect from 1 January 2019, replacing Mr Wee Kheng Jin).

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## **ROLES AND RESPONSIBILITIES OF THE NC**

The NC has written terms of reference setting out its scope and authority in performing the functions of a nominating committee, including assisting the Board in matters relating to:

- Selection and appointment of new directors and re-appointment of the existing Directors of the Board, taking into account their contribution, performance and ability to commit sufficient time and attention to the affairs of Far East H-REIT, as well as their respective commitments outside Far East H-REIT;
- Implementation and monitoring of the Board Diversity Policy in order to make recommendations to the Board on the diversity of skills, experience, gender, age, knowledge, size and composition of the Board;
- Determining annually whether or not a director is independent, having regard to the circumstances set forth in Provisions 2.1 and 2.2 of the Code and SGX Listing Rule 210 (5)(d);
- Deciding whether or not a director is able to and has been adequately carrying out his or her duties as a director;
- Review of succession plans, in particular the appointment and/or replacement of the Chairman, the CEO and key management personnel;
- Development of the process and criteria for evaluation of the performance of the Board, its Board Committees and Directors;
- Review of training and professional development programmes for the Board and its Directors; and
- Such other authorities and duties as provided in the Code.

The NC administers nominations to the Board, reviews the structure, size and composition of the Board and reviews the performance and independence of the Directors. In addition, as part of regulatory requirements, MAS also requires prior approval for any change of the Chief Executive Officer or of any appointment of director.

The NC is of the view that the members of the Board provide an appropriate balance and diversity of skills and commercial experience, as elaborated on in the Board Diversity Policy section. The NC believes that a director's eligibility for selection, appointment and re-appointment goes beyond his or her attendance at meetings. The NC takes into consideration a director's competencies, commitment, contribution and performance, and is committed to providing an appropriate balance and diversity of skills, experience and knowledge.

## **REVIEW OF DIRECTORS' TIME COMMITMENTS**

All directors are required to commit sufficient time and attention to the affairs of Far East H-REIT and the REIT Manager. The NC will annually, and as required, assess the major commitments including employment and listed company directorships and whether the director has and can suitably fulfill his or her duties as a director of the REIT Manager.

Towards this end, the REIT Manager has established a policy that any of its directors may not take on more than the following number of listed company directorships without prior consultation and agreement of the NC and the Board:

- For a director who is an executive of a company (including the REIT Manager): not more than two external listed company directorships.
- For a director who is not an executive of any company: not more than five listed company directorships.

None of the current directors have reached the limits set out in the above policy.

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Based on every Director's full attendance record for Board and Board Committee meetings (set out on page 72) and contributions outside of formal Board and Board Committee meetings, the NC is satisfied that all Directors are able to and have committed sufficient time and discharged their duties adequately for the financial year ended 31 December 2019. The REIT Manager has no alternate directors on its Board.

Key information regarding the Directors such as academic and professional qualifications, committee membership, date of appointment, and details about the present and past directorships of each Director are set out on pages 12-15. The Directors' Stapled Securityholdings in Far East H-Trust are set out on page 188.

## **SELECTION AND APPOINTMENT OF NEW DIRECTORS**

The NC regularly reviews the existing attributes and competencies of the Board in order to determine the desired experience or expertise required to strengthen or supplement the Board. The NC is in charge of making recommendations to the Board regarding the identification and selection of new directors.

In identifying candidates for new appointments to the Board as part of the Board's renewal process, the following principles are applied by the NC:

- The Board should comprise directors with a broad range of commercial experience, including expertise in business management, tourism and hospitality, real estate, finance, investments and legal matters;
- The Board should have diversity in terms of gender and age;
- More than half of the Board should comprise independent directors as the Chairman is not an independent director; and
- The candidate is fit and proper in accordance with MAS' fit and proper guidelines, taking into account his or her track record, capabilities and such other relevant experience as may be determined by the Board.

Given the selection criteria, the search for potential candidates is initiated by considering recommendations from Board members and Management, and conducting an external search for candidates that fit the criteria. The external search in 2019 was conducted through the SID's Board Appointment Service.

The NC will then shortlist and interview the candidates. Shortlisted candidates are evaluated by the Chairman of the Board and IDs so that recommendations made on proposed candidates are objective and well-supported. Candidates are evaluated and selected based on their relevant expertise and potential contributions. Other factors including the current and mid-term needs and goals of Far East H-REIT are also considered. Once a candidate is selected for the Board, the NC conducts due diligence through reference checks before putting it up to the Board for approval.

Having initiated the Board renewal process two years ago with the appointment of Ms Vivienne Lim in 2018 and Ms Catherine Lee in 2019, the NC had reviewed the current size and composition of the Board as at 31 December 2019. The Board plans to continue the process of gradually and progressively refreshing its IDs over the next few years, taking into account, among other factors, the implementation of the nine-year rule on director independence in the SGX Listing Rules.

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## **KEY MANAGEMENT SUCCESSION**

In addition to succession planning of the Board, the NC reviews the succession plans for key management positions. Given the small size of the organisation, the succession planning draws upon personnel from FEO.

## **BOARD PERFORMANCE**

### **Principle 5:**

*The Board undertakes a formal annual assessment of its effectiveness as a whole, and that of each of its board committees and individual directors.*

The NC assesses and discusses the performance of the Board as a whole and its Board Committees on an annual basis. The NC has in place a process to evaluate the effectiveness of the Board and its Board Committees, as well as the contribution by the Chairman and each individual Director. The review allows each Director to individually express his or her personal and confidential assessment of the Board's overall effectiveness in discharging its duties and responsibilities. It provides insights into the functioning of the Board and its Board Committees, whilst identifying areas that need strengthening or improvement.

The criteria for evaluation of the Board's performance includes board composition, access to information, board process, risk management, strategy and planning, board accountability, and engagement with CEO and Management. These performance criteria are approved by the Board, and are generally unchanged from year to year so that trends may be determined.

The Directors are required to complete evaluation questionnaires for the Board and its Board Committees and an individual director self-assessment questionnaire. The individual Director's performance is assessed based on the Director's duties and performance, knowledge and interactive skills.

An external facilitator, Ms Wong Su Yen, CEO of Bronze Phoenix Consulting Pte Ltd, was engaged to assist the NC in conducting this evaluation and assessment of the performance of the Board, its Board Committees and the individual Directors. The external facilitator is independent, has no other business relationship with the trust, and is not related to the directors.

The Company Secretaries of the REIT Manager (from corporate secretarial agent, Tricor Evatthouse Corporate Services) assist in compiling and tabulating the responses received from the Directors to facilitate the external facilitator's assessment and analysis. The questionnaires are on a no-name basis and the submissions are kept confidential by the Company Secretaries of the REIT Manager who administer this process.

From the responses, a consolidated report is prepared and provided to the NC and external facilitator. They review the responses and feedback, as well as the areas where the Board's performance and effectiveness could be enhanced. The board performance evaluation results and recommendations for improvement are then presented to the Board by the external facilitator for discussion and for implementation to help the Board discharge its duties more effectively.

Each Director is given sufficient opportunity to bring to the Board his or her perspective to enable balanced and well-considered decisions to be made.

The Board, in consultation with the NC, is satisfied that the Board has met its performance objectives for the year under review.

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## **(B) REMUNERATION MATTERS**

### **PROCEDURES FOR DEVELOPING REMUNERATION POLICIES**

#### **Principle 6:**

*The Board has a formal and transparent procedure for developing policies on director and executive remuneration, and for fixing the remuneration packages of individual directors and key management personnel. No director is involved in deciding his or her own remuneration.*

### **LEVEL AND MIX OF REMUNERATION**

#### **Principle 7:**

*The level and structure of remuneration of the Board and key management personnel are appropriate and proportionate to the sustained performance and value creation of the company, taking into account the strategic objectives of the company.*

### **DISCLOSURE ON REMUNERATION**

#### **Principle 8:**

*The company is transparent on its remuneration policies, level and mix of remuneration, the procedure for setting remuneration, and the relationships between remuneration, performance and value creation.*

## **REMUNERATION COMMITTEE (RC)**

The RC members are appointed by the Board from among its members, the majority of whom (including the Chairman of the RC) are independent directors. The members of the RC are Mr Huang Cheng Eng (Chairman of RC), Mr Kyle Lee and Mr Wee Kheng Jin.

## **ROLES AND RESPONSIBILITIES OF THE RC**

The RC plays an important role in ensuring the attraction, recruitment, motivation and retention of talents through competitive remuneration and progressive policies so as to achieve Far East H-Trust's goals, and to deliver sustainable Stapled Securityholder value, distribution income, as well as growth in total returns. Terms of reference setting out the scope and authority in performing the function of the RC have been written, and these include assisting the Board in matters relating to:

- Reviewing and recommending to the Board for endorsement a framework of remuneration for the directors and key management personnel (no member of the Board is involved in any decision of the Board relating to his or her own remuneration). The framework covers all aspects of remuneration, including fees, salaries, allowances, bonuses, grant of shares and share options and benefits in kind;
- Reviewing and recommending to the Board the specific remuneration packages for each director as well as for the key management personnel;
- Consulting independent professional consultancy firms where necessary in determining remuneration packages; and
- Considering the various disclosure requirements for directors' remuneration and ensuring that there is adequate disclosure in the financial statements to ensure and enhance transparency between Far East H-Trust and relevant interested parties.

# Corporate Governance Report

The RC seeks to ensure that the remuneration paid to the key management personnel of the REIT Manager are closely linked to the achievement of corporate and individual performance targets. The performance targets approved by the Board at the start of each year are set with the purpose of motivating a high degree of business performance with emphasis on both short- and longer-term quantifiable goals. At the close of each financial year, the RC reviews the achievements of the REIT Manager against the targets set to determine the overall performance taking into consideration qualitative factors such as the business environment, regulatory landscape and industry trends and approves a bonus pool that is commensurate with the performance achieved.

Where necessary, the Board modifies the framework of remuneration to align the REIT Manager's compensation with the interests of the Stapled Securityholders. Remuneration of the directors, executive officers and employees of the REIT Manager is not paid out of the deposited property of Far East H-REIT, but paid by the REIT Manager from the fees it receives.

## **KEY MANAGEMENT EXECUTIVES' REMUNERATION FRAMEWORK**

The remuneration of key management personnel is structured to take into account:

- The strategic objectives and goals of Far East H-Trust
- Corporate and individual performance, both in terms of financial and non-financial performance of Far East H-Trust through the incorporation of appropriate key performance indicators that are specific, measurable and result-oriented

The key performance indicators used to determine the remuneration of the CEO and key management personnel of the REIT Manager include:

- Far East H-Trust's income available for distribution (and distribution per Stapled Security)
- Total Stapled Securityholder Return
- Investor relations management
- Asset enhancement initiatives
- Corporate governance
- Other strategic initiatives as determined from time to time

These performance indicators are appropriate and meaningful measures which assess Management's performance, whilst taking into account the risk policies of Far East H-Trust. Structuring the level of remuneration as such aligns the interests of key management personnel with that of the Stapled Securityholders and promotes the long-term success of Far East H-Trust.

The remuneration of key management personnel comprises a fixed and a variable component. The fixed component comprises fixed salary and compulsory employer contribution to the employees' Central Provident Fund. The variable component comprises short-term cash bonuses, and long-term equity-based incentives whereby Stapled Securities are awarded under a Performance Unit Plan based on pre-determined targets (e.g. total Stapled Securityholder return), set over a three-year period.

This structure links rewards only to the performance of Far East H-Trust and the individual's performance, and there is no link to the performance of the controlling shareholder of the REIT Manager. It takes into consideration the risk policies of Far East H-Trust so as to be symmetric with risk outcomes and sensitive to the time horizon of risks.

The remuneration of the CEO and each of the key management personnel are reviewed by the RC and recommended to the Board for approval.

# Corporate Governance Report

## NON-EXECUTIVE DIRECTORS' REMUNERATION AND FEE STRUCTURE

The RC also ensures that the remuneration of non-executive directors is appropriate to their level of contribution taking into account factors such as effort and time spent, and their responsibilities. The RC ensures that independent directors are not over-compensated to the extent that their independence may be compromised. None of the Directors has any service contracts with the REIT Manager.

The structure of directors' fees for non-executive directors comprises a base fee for serving as a director and additional fee for serving as Chairman or member on each Board Committee. It also takes into account the following:

- Directors' responsibilities and contributions; and
- Industry practices and norms on remuneration, including the guidelines set out in the Statement of Good Practice issued by the SID.

The directors' fees (including the Chairman), will be paid in the form of cash (80% of the total fees) and units (20% of the total fees). The incorporation of an equity component in the total remuneration of the Directors is intended to achieve the objective of aligning the interests of the Directors with those of Unitholders and the long-term interests of the REIT. Non-Executive Directors are required to hold the Units awarded under the above policy for at least one year from date of award during their individual Board tenures.

Directors' fees are reviewed and endorsed by the RC. The framework for determining the Directors' fees is shown in the table below:-

<b>Main Board</b>	Chairman	S\$70,000 per annum
	Director	S\$55,000 per annum
<b>Audit &amp; Risk Committee</b>	Chairman	S\$50,000 per annum
	Member	S\$25,000 per annum
<b>Remuneration Committee</b>	Chairman	S\$20,000 per annum
	Member	S\$10,000 per annum
<b>Nominating Committee</b>	Chairman	S\$15,000 per annum
	Member	S\$ 7,500 per annum

## INDUSTRY BENCHMARKING AND ENGAGEMENT OF CONSULTANT

In determining the remuneration of its directors and key management personnel, the REIT Manager benchmarks against the industry and seeks views on market practices and trends by engaging an independent remuneration consultant, Aon Hewitt. The consultant is not related to the REIT Manager, its controlling shareholder, its related corporations or any of its Directors. The REIT Manager also takes reference from market practices in the formulation and review of its remuneration policies.

# Corporate Governance Report

The REIT Manager applies the principle that remuneration matters are to be sufficiently structured and benchmarked to good market practices in order to attract suitably qualified talent, to grow and manage Far East H-REIT. The REIT Manager applies the principle that the remuneration for the Board and key executives should be viewed in totality. It is a concerted pursuit of strong and ethical leadership for the success of Far East H-Trust and the REIT Manager.

The RC reviews the employment contracts to ensure that they contain fair and reasonable termination clauses which are not overly generous, so as to avoid rewarding poor performance. Contractual provisions have also been instituted to allow the REIT Manager to reclaim incentive components of the remuneration from the CEO and the key management personnel paid in prior years, in exceptional circumstances of misstatement of financial results or of misconduct resulting in financial loss. The Board and RC have reviewed and ensured that the level and structure of remuneration for the REIT manager's key management personnel and non-executive directors are in alignment with the long-term interests and risk management policies of Far East H-Trust.

## DISCLOSURE OF REMUNERATION

### Directors' fees<sup>1</sup>

The exact remuneration payable to each individual Director for the financial year ended 31 December 2019 is as follows:-

<b>Name of Director</b>	<b>Fee</b>
Wee Kheng Jin	S\$135,000
Willie Cheng Jue Hiang	S\$112,500
Kyle Lee Khai Fatt	S\$105,000
Huang Cheng Eng	S\$100,000
Vivienne Lim Hui Bian	S\$ 62,500
Catherine Lee Khia Yee <sup>2</sup>	S\$ 27,500

1 For the financial year ended 31 December 2019, each of the Directors (including the Chairman) will receive 20% of his or her total directors' fees in the form of Stapled Securities in Far East H-Trust. The actual number of Stapled Securities to be awarded will be determined by reference to the volume-weighted average price for a Stapled Security for all trades on the SGX-ST in the ordinary course of trading on the SGX-ST, for the period of 10 business days after the forthcoming annual general meeting of the REIT Manager. The remainder of the directors' fees shall be paid in cash. The Stapled Securities are to be issued from the existing holdings of the REIT Manager, hence no new Stapled Securities will be issued for this purpose.

2 Ms Catherine Lee Khia Yee had been appointed as Independent Director, effective 1 July 2019.

# Corporate Governance Report

## Level and Mix of Remuneration of the CEO and other Top 5 Key Executives

The exact remuneration paid to or payable to the CEO for the financial year ended 31 December 2019 is as follows:-

	Salary and Allowances <sup>(1)</sup>	Variable Bonus <sup>(2)</sup>	Benefits-In-Kind	Long-Term Incentive <sup>(3)</sup>	Total <sup>(4)</sup>
Gerald Lee Hwee Keong	S\$547,340	S\$83,465	S\$50,113	S\$313,500	S\$994,418
	55%	8%	5%	32%	100%

The remuneration paid to or payable to each of the other top five key executives, in bands of S\$250,000, for the financial year ended 31 December 2019 is as follows:-

Remuneration Band and Names of Top 5 Key Executives	Salary and Allowances <sup>(1)</sup>	Variable Bonus <sup>(2)</sup>	Benefits-In-Kind	Long-Term Incentive <sup>(3)</sup>	Total <sup>(4)</sup>
<b>Between S\$500,000 to S\$750,000</b>					
Regina Yap Siew Buay	55%	17%	0%	28%	100%
<b>Between S\$250,000 to S\$500,000</b>					
Irfan Tayabali	67%	12%	0%	21%	100%
Elaine Chin Shu Peng	63%	11%	2%	24%	100%
<b>Below S\$250,000</b>					
Kate Lai Xiuping	84%	16%	0%	0%	100%
Charissa Liu Suyi	85%	15%	0%	0%	100%
<b>Total for top 5 key executives (excluding CEO)</b>					<b>S\$1,542,545</b>

1 Inclusive of Annual Wage Supplement and employer's Central Provident Fund contributions.

2 Payout is based on the achievement of pre-determined performance targets of FY2019.

3 Long-term incentive will be paid by Stapled Securities of Far East H-Trust pursuant to the REIT Manager's Performance Unit Plan (PUP). The value of Stapled Securities awarded is based on the fair value of the Stapled Securities at the time of grant in FY2019. The actual vesting can range between 0 to 200% of the initial contingent award depending on the achievement of the pre-determined targets at the end of the three-year performance period.

4 Remuneration of the employees including Long-term Incentive is paid by the REIT Manager.

The remuneration of the CEO and other employees of the REIT Manager is paid out of the fees that the REIT Manager receives, rather than borne by Far East H-Trust.

There is no employee with the REIT Manager who is an immediate family member of a Director or the CEO of the REIT Manager or a substantial Stapled Securityholder of Far East H-Trust, and whose remuneration exceeds S\$100,000 during the year. None of our employees are substantial shareholders of the REIT Manager.

# Corporate Governance Report

## **(C) ACCOUNTABILITY AND AUDIT**

### **RISK MANAGEMENT AND INTERNAL CONTROLS**

#### **Principle 9:**

*The Board is responsible for the governance of risk and ensures that Management maintains a sound system of risk management and internal controls, to safeguard the interests of the company and its shareholders.*

### **ROLE OF THE BOARD AND ARC IN ENSURING EFFECTIVE RISK MANAGEMENT AND INTERNAL CONTROLS**

The Board recognises the importance of a sound system of risk management and internal controls to safeguard Stapled Securityholders' interests and Far East H-REIT's assets. The Board affirms its responsibility for Far East H-REIT's system of risk management and internal controls, and for reviewing the adequacy and effectiveness of Far East H-REIT's risk management and internal control systems, including financial, operational, compliance and information technology controls on an annual basis.

The ARC assists the Board in examining the adequacy and effectiveness of internal controls policies and procedures to ensure that a robust risk management framework and internal control system is maintained while the Board reviews the adequacy and effectiveness of the risk management and internal control system. The ARC also assesses the materiality of specific developments or risks that might have an impact on the security price of Far East H-Trust.

### **FORMULATION OF RISK MANAGEMENT FRAMEWORK AND INTERNAL CONTROL SYSTEM**

In setting up the risk management framework, the extent of risk tolerance and the risk parameters based on Far East H-REIT's current operations have been set and approved by the Board after taking into consideration Far East H-REIT's strategic objectives. The risk parameters guide Management on managing the risks of Far East H-REIT and these parameters will remain unchanged for as long as there is no change in Far East H-REIT's operating profile.

The ARC guides Management in the formulation of risk policies and processes in identifying, evaluating and managing key risks while the ownership of risk management lies with the CEO and he is supported by the respective managers. The nature and extent of risks are assessed regularly by Management and internal auditors and reports are submitted to the ARC as and when necessary. The ARC reports to the Board on material findings and makes recommendations or seeks guidance from the Board in respect of any material risk issues.

Any findings on material non-compliance or weaknesses in internal controls and risk management by the internal auditors are reported to the ARC. The recommendations to further improve the internal control system and risk management system are reported to the ARC and actions are taken by Management.

### **ASSESSMENT AND MANAGEMENT OF MATERIAL RISKS**

In managing business risk, the Board considers the economic environment and risks that are relevant to the hospitality and hospitality-related industries such as stronger than anticipated price competition on room rates due to the supply of new hotel rooms, the impact of a stronger Singapore dollar, higher wage costs, tight labour market, etc.

In assessing the operational risks, the ARC reviews liquidity management such as the aging report which includes analysing accounts receivable and accounts payable.

# Corporate Governance Report

In addressing information technology risk, the Sponsor's Information Technology department has assisted in putting in place a framework and process (e.g. to recover critical system within 4 hours of each system failure).

In managing conflicts of interest risk, the REIT Manager has instituted the following procedures:

- The REIT Manager will not manage any other REIT which invests in the same type of properties as Far East H-REIT;
- All executive officers will be employed by the REIT Manager and will not hold executive positions in any other entities;
- All resolutions in writing of the Directors of the REIT Manager in relation to matters concerning Far East H-REIT must be approved by a majority of the Directors, including at least one Director independent from management and business relationships with the REIT Manager;
- At least half of the Board shall comprise such independent directors;
- In respect of matters in which a Director of the REIT Manager or his or her associates (as defined in the Listing Manual) has an interest, direct or indirect, such interested director will abstain from voting. In such matters, the quorum must comprise a majority of the Directors of the REIT Manager and must exclude such interested director;
- In respect of matters in which the Sponsor has an interest, direct or indirect, any director appointed by the Sponsor to the Board to represent its interests will abstain from deliberations and voting on such matters. In such matters, the quorum must comprise a majority of the Directors of the REIT Manager independent from management and business relationships with the REIT Manager and must exclude such directors of the Sponsor. Save for resolutions relating to the removal of the REIT Manager, the REIT Manager and its associates (as defined in the Listing Manual) are prohibited from voting or being counted as part of a quorum in Stapled Securityholders' meetings convened to approve any matter in which the REIT Manager and/or any of its associates has an interest, and for so long as the REIT Manager is the manager of Far East H-REIT, the controlling shareholders of the REIT Manager and of any of its associates (as defined in the Listing Manual) are prohibited from voting or being counted as part of a quorum in any Stapled Securityholders' meetings convened to consider a matter in respect of which the relevant controlling shareholders of the REIT Manager and/or of any of its associates have an interest; and
- It is also provided in the Trust Deed that if the REIT Manager is required to decide whether or not to take any action against any person in relation to any breach of any agreement entered into by the REIT Trustee for and on behalf of Far East H-REIT with an Interested Person (as defined in the Listing Manual) and/or, as the case may be, an Interested Party (as defined in the Property Funds Appendix) (collectively, a "Related Party") of the REIT Manager, the REIT Manager shall be obliged to consult with a reputable law firm (acceptable to the REIT Trustee) which shall provide legal advice on the matter. If the said law firm is of the opinion that the REIT Trustee, on behalf of Far East H-REIT, has a *prima facie* case against the party allegedly in breach under such agreement, the REIT Manager shall be obliged to take appropriate action in relation to such agreement. The Directors of the REIT Manager will have a duty to ensure that the REIT Manager so complies. Notwithstanding the foregoing, the REIT Manager shall inform the REIT Trustee as soon as it becomes aware of any breach of any agreement entered into by the REIT Trustee for and on behalf of Far East H-REIT with a Related Party of the REIT Manager and the REIT Trustee may take such action as it deems necessary to protect the rights and interests of the Stapled Securityholders of Far East H-Trust. Any decision by the REIT Manager not to take action against a Related Party of the REIT Manager shall not constitute a waiver of the REIT Trustee's right to take such action as it deems fit against such Related Party.

# Corporate Governance Report

## INTERNAL CONTROL SYSTEM FOR RELATED PARTY AND INTERESTED PERSON TRANSACTIONS

The REIT Manager has established an internal control system to ensure that all Related Party Transactions, Interested Party Transactions (as defined in the Property Fund Appendix) and Interested Person Transactions (as defined in the Listing Manual of the SGX-ST) (collectively "IPT"):

- will be undertaken on an arm's length basis and on normal commercial terms; and
- will not be prejudicial to the interests of the Stapled Securityholders of Far East H-Trust.

Related party transactions have been disclosed in the financial statements of this annual report. As a general rule, the REIT Manager must demonstrate to the ARC that such transactions satisfy the foregoing criteria, which may entail obtaining (where practicable) quotations from parties unrelated to the REIT Manager, or obtaining valuations from independent professional valuers (in accordance with the Property Funds Appendix).

The REIT Manager maintains a register to record all IPT which are entered into by Far East H-REIT and the bases, including any quotations from unrelated parties and independent valuations obtained, on which they are entered into.

The REIT Manager has incorporated into its internal audit plan to review all IPT entered into by Far East H-REIT. The ARC will monitor the procedures established to regulate IPT, including reviewing any IPT entered into from time to time, and the internal audit reports at least twice a year to ascertain that the guidelines and procedures established to monitor IPT have been complied with (including relevant provisions of the Listing Manual and Property Funds Appendix). If a member of the ARC has an interest in a transaction, he or she is to abstain from participating in the review and approval process in relation to that transaction.

In addition, the REIT Trustee will also have the right to review such audit reports to ascertain that the Property Funds Appendix has been complied with. The review will include the examination of the nature of the transaction and its supporting documents or such other data deemed necessary to the ARC.

Further, the following procedures will be adhered to:

- Transactions (either individually or as part of a series or if aggregated with other transactions involving the same interested party during the same financial year) equal to or exceeding S\$100,000 in value but less than 3.0% of the value of Far East H-REIT's latest audited net tangible assets/net asset value will be subject to review by the ARC at regular intervals;
- Transactions (either individually or as part of a series or if aggregated with other transactions involving the same interested party during the same financial year) equal to or exceeding 3.0% but below 5.0% of the value of Far East H-REIT's net tangible assets/net asset will be subject to the review and prior approval of the ARC. Such approval shall only be given if such transaction is conducted on an arm's length basis, on normal commercial terms and consistent with similar types of transactions made with third parties which are not interested parties; and
- Transactions (either individually or as part of a series or if aggregated with other transactions involving the same interested party during the same financial year) equal to or exceeding 5.0% of the value of Far East H-REIT's net tangible assets/net asset value will be reviewed and approved prior to such transaction being entered into, on the basis described in the preceding paragraph, by the ARC which may, as it deems fit, request advice on the transaction from independent sources or advisers, including the obtaining of valuations from independent professional valuers. Further, under the Listing Manual and the Property Funds Appendix, such transaction would have to be approved by the Far East H-Trust Stapled Securityholders at a meeting duly convened.

# Corporate Governance Report

Where matters concerning Far East H-REIT relate to transactions entered into or to be entered into by the REIT Trustee for and on behalf of Far East H-REIT with an interested party (which would include relevant associates thereof), the REIT Trustee is required to ensure that such transactions are conducted on normal commercial terms, are not prejudicial to the interests of Far East H-REIT and the Stapled Securityholders of Far East H-Trust, and are in accordance with all applicable requirements of the Property Funds Appendix and/or the Listing Manual relating to the transaction in question. Furthermore, the REIT Trustee has the ultimate discretion under the Trust Deed to decide whether or not to enter into a transaction involving an interested party. If the REIT Trustee is to sign any contract with an interested party, the REIT Trustee will review the contract to ensure that it complies with the requirements relating to IPT in the Property Funds Appendix (as may be amended from time to time) and the provisions of the Listing Manual relating to IPT (as may be amended from time to time) as well as guidance prescribed by the MAS and SGX-ST.

Save for the IPT described under "Setting Up of Far East H-REIT and Future Related Party Transactions" in the IPO prospectus, Far East H-REIT will comply with Rule 905 of the Listing Manual by announcing any Interested Person Transaction in accordance with the Listing Manual if such transaction, by itself or when aggregated with other Interested Person Transactions entered into with the same Interested Person (as defined in the Listing Manual) during the same financial year, is 3.0% or more of the value of Far East H-REIT's latest audited net tangible assets/net asset value.

The aggregate value of all Interested Person Transactions in accordance with the Listing Manual in FY2019, and which are subject to Rules 905 and 906 of the Listing Manual excluding transactions of less than S\$100,000 in value, is disclosed below:

Name of interested person	Nature of Relationship	Aggregate value of all interested person transactions during the financial year under review (excluding transactions less than S\$100,000 and transactions conducted under shareholders' mandate pursuant to Rule 920) S\$'000	Aggregate value of all interested person transactions conducted under shareholders' mandate pursuant to Rule 920 (excluding transactions less than S\$100,000) S\$'000
<b>FEO Hospitality Asset Management Pte. Ltd.</b>	REIT Manager		
Rental income <sup>(1)</sup>		159	-
Management fees <sup>(2)</sup>		12,257	-
Reimbursable expenses <sup>(3)</sup>		158	-
Other revenue <sup>(4)</sup>		2	-
<b>DBS Trustee Limited</b>	REIT Trustee		
Trustee's fee		329	-
<b>Far East Organization and its related companies</b>	Controlling Stapled Securityholders of Far East H-Trust and its associate		
Rental income – Master Lease <sup>(5)</sup>		93,619	-
Rental income – REIT Commercial Premises <sup>(6) (1)</sup>		2,328	-
Rental income – Others <sup>(4) (7)</sup>		95	-
Rental expense – REIT Commercial Premises <sup>(4)</sup>		7	-
Hotel management fee <sup>(8) (4)</sup>		602	-

# Corporate Governance Report

Name of interested person	Nature of Relationship	Aggregate value of all interested person transactions during the financial year under review (excluding transactions less than S\$100,000 and transactions conducted under shareholders' mandate pursuant to Rule 920) S\$'000	Aggregate value of all interested person transactions conducted under shareholders' mandate pursuant to Rule 920 (excluding transactions less than S\$100,000) S\$'000
Shared service fees <sup>(9)</sup>	Controlling Stapled Security-holders of Far East H-Trust and its associate	1,194	-
Reimbursable expenses <sup>(4)</sup>		578	-
Technical and operation support service fee <sup>(10)</sup> <sup>(4)</sup>		619	-
Leasing commission expense – REIT Commercial Premises <sup>(11)</sup>		374	-
Other expenses <sup>(4)</sup> <sup>(12)</sup>		1,984	-
Project management services <sup>(4)</sup>		98	-
Other revenue <sup>(4)</sup>		243	-
Reimbursable expenses received/receivable <sup>(4)</sup> <sup>(13)</sup>		194	-
Interest income <sup>(14)</sup>		817	-
Interest expense <sup>(4)</sup> <sup>(15)</sup>		572	-
Loan to a joint venture company <sup>(16)</sup>		1,200	-

(1) DBS Trustee Limited (in its capacity as trustee of Far East H-REIT) has entered into tenancy agreements with the REIT Manager and related corporations of the REIT Manager during the year which has been reviewed and approved by ARC as follows:

Name of interested person	Term	Contract value S\$'000
FEO Hospitality Asset Management Pte. Ltd.	2 years	329
Far East Management Pte. Ltd.	1 – 1.3 year	108
Kitchen Language Pte. Ltd.	3 years	1,372
Far East Property Sales Pte. Ltd.	0.7 year	34

(2) Pursuant to the Trust Deed, the REIT Manager is entitled to a management fee comprising a base fee of 0.3% per annum of the value of the Deposited Property (as defined in the Trust Deed) and a performance fee of 4.0% per annum of net property income (as defined in the Trust Deed).

(3) This relates to service fee for website maintenance, annual report production, AGM expenses, air tickets, professional fee and other miscellaneous expenses.

(4) Far East H-REIT holds 30% interest in Fontaine Investment Pte Ltd (“FIPL”), a joint venture company established to develop a hotel site in Sentosa. FIPL meets the criteria of an Entity at Risk being an associated company that is not listed on the Exchange. The aggregate value of interested person transactions included value at risk for transactions with Interested Persons of 30% on the basis of the Far East H-REIT’s shareholding.

(5) This relates to the rental income received/receivable from the master lessees of the properties:

-	First Choice Properties Pte Ltd	-	Golden Development Private Limited
-	Far East Organization Centre Pte Ltd	-	OPH Riverside Pte Ltd
-	Golden Landmark Pte. Ltd.	-	Serene Land Pte Ltd
-	Transurban Properties Pte Ltd	-	Oxley Hill Properties Pte Ltd
-	Far East Orchard Limited	-	Riverland Pte Ltd
-	Far East SOHO Pte Ltd		

(6) This relates to rental income received/receivable from related corporations of the REIT Manager:

-	Far East Management Pte. Ltd.	-	Far East Hospitality Holdings Pte. Ltd.
-	Far East Property Sales Pte. Ltd.	-	Far East Hospitality Management (S) Pte. Ltd.
-	Kitchen Language Pte. Ltd.	-	Far East Orchard Limited
		-	Yeo Hiap Seng Ltd

# Corporate Governance Report

- (7) FIPL has entered into a tenancy agreement with an estimated contract sum of S\$0.4 million<sup>(4)</sup> for 3 years with an option to renew for 3 years with Kitchen Language Pte. Ltd. during the year which has been reviewed and approved by ARC.
- (8) This relates to hotel management fee paid/payable by FIPL to Far East Hospitality Management (S) Pte. Ltd.
- (9) This relates to the shared services agreements between the master lessees and Far East H-REIT in respect of the properties. The master lessees are paid monthly for a share of the costs of the applicable services provided to and attributed to the REIT Commercial Premises based on the agreed proportion of the total costs and expenses for the properties. The services provided or procured by the master lessees included cleaning and maintenance services, fire alarm system maintenance, lifts maintenance, landscape maintenance, waste disposal services, provision of security services, chiller plant maintenance, air conditioner maintenance and other services.
- (10) This relates to technical and operation support service fee paid/payable to related corporations of the REIT Manager:
- |   |                                      |   |                                               |
|---|--------------------------------------|---|-----------------------------------------------|
| - | First Choice Properties Pte Ltd      | - | OPH Riverside Pte Ltd                         |
| - | Far East Organization Centre Pte Ltd | - | Serene Land Pte Ltd                           |
| - | Golden Landmark Pte. Ltd.            | - | Oxley Hill Properties Pte Ltd                 |
| - | Golden Development Private Limited   | - | Riverland Pte Ltd                             |
| - | Far East Orchard Limited             | - | Far East Hospitality Management (S) Pte. Ltd. |
| - | Agape Laundry Pte Ltd                |   |                                               |
- DBS Trustee Limited (in its capacity as trustee of Far East H-REIT) has extended the technical services agreements with the related corporations of the REIT Manager for 2 years with an estimated contract sum of S\$0.8 million during the year which has been reviewed and approved by ARC.
- FIPL has entered into laundry services contracts with an estimated contract sum of S\$0.6 million<sup>(4)</sup> for 2 years with Agape Laundry Pte Ltd during the year which has been reviewed and approved by ARC.
- (11) This relates to leasing commission paid/payable to Far East Management (Private) Limited and other third party marketing agents.
- (12) This relates to property management & leasing services, breakfast, all day dining, room service & banquet, technical and back office support fee paid/payable by FIPL to related corporations of the REIT Manager:
- |   |                                       |
|---|---------------------------------------|
| - | Far East Real Estate Agency Pte. Ltd. |
| - | Kitchen Language Pte. Ltd.            |
| - | Far East Management (Private) Limited |
- (13) This relates to reimbursement of utilities and other miscellaneous expenses received/receivable from related corporations of the REIT Manager.
- (14) This relates to interest on shareholders' loan received/receivable from FIPL.
- (15) This relates to interest on shareholders' loan paid/payable by FIPL to Far East Organization Centre Pte Ltd.
- (16) This relates to a shareholders' loan made to FIPL.

Far East H-Trust has not obtained a Stapled Securityholders' mandate pursuant to Rule 920 of the Listing Manual for IPT.

Save as disclosed above, (a) there are no other material contracts entered into by Far East H-Trust and/or its subsidiaries including the interests of the CEO, any director or controlling Stapled Securityholder, either still subsisting at the end of the year or entered into since the end of the previous financial year; and (b) there were no additional IPT (excluding transactions of less than S\$100,000 each) entered into during the period under review.

The entry into and the fees and charges payable by Far East H-REIT under the Trust Deed, the Stapling Deed, the Shared Services Agreements, the Shared Electricity Services Agreements, the License Agreement and the leases set out in the section "Other Related Party Transactions" in the IPO Prospectus and/or circular, to the extent that details of these have been specifically disclosed in the IPO Prospectus and/or circular, which each constitutes an Interested Person Transaction, are deemed to have been specially approved by Stapled Securityholders upon purchase of the Stapled Securities and/or in the Extraordinary General Meeting and are therefore not subject to Rules 905 and 906 of the Listing Manual to the extent that there is no subsequent change to the rates and/or bases of the fees charged thereunder which will adversely affect Far East H-REIT.

# Corporate Governance Report

## **BOARD'S COMMENT ON INTERNAL CONTROLS AND RISK MANAGEMENT**

The Board receives quarterly certification of assurance from the CEO and CFO which assures that to the best of their knowledge, the accounting records have been properly maintained and the financial statements are drawn up so as to give a true and fair view of the financial position and financial performance, and that they are prepared in accordance with accounting standards. The CEO, CFO and other key management personnel also provide a certification of assurance to the Board that Far East H-Trust's risk management and internal control systems, to the extent that they address the financial, operational, compliance and information technology risks faced by Far East H-Trust in its current business environment, have been adequately designed and are operating effectively in all material aspects, as at 31 December 2019. The Hotel and Serviced Residence Operator provides a certificate of assurance to the Board every quarter that to the best of its knowledge, hotel and serviced residence management services have been rendered in accordance to the hotel management agreement and serviced residence management agreement and each of the properties is kept in accordance with industry's laws and regulations such as the Building and Construction Act, Fire Safety Code, The Workplace Safety and Health Act, etc.

Based on the risk management and internal control systems established and adhered to by Far East H-Trust, the assurance received from the CEO, CFO and other key management personnel, the assurance received from the Hotel and Serviced Residence Operator, work performed by the internal auditor, external auditor and compliance manager, and reviews conducted by Management and various Board Committees, the Board is of the view that Far East H-Trust's internal controls (including financial, operational, compliance and information technology controls) and risk management system have been adequately designed and are operating effectively in all material aspects faced by Far East H-Trust in its business environment as at 31 December 2019.

The Board notes that the internal controls and risk management system established provides reasonable though not absolute assurance against material misstatement of loss and that Far East H-Trust will not be adversely affected by any event that could be reasonably foreseen as it strives to achieve its business objectives. The Board accepts that the internal control systems contain inherent limitations and notes that no system can provide absolute assurance against the occurrence of material errors, poor judgment in decision making, human errors, fraud and other irregularities.

The ARC concurs with the Board's comments above on the internal controls and risk management system of Far East H-Trust.

## **ROLE AND DUTIES OF COMPLIANCE MANAGER**

KPMG Services Pte Ltd ("KPMG"), the Compliance Manager, assists with the REIT's and the REIT Manager's regulatory and compliance matters.

KPMG reports to the ARC of the REIT Manager and their duties include:

- Advising and checking for the REIT Manager's compliance with its regulatory obligations under the SFA and SGX Listing Manual;
- Advising and checking for the representatives' compliance with their regulatory obligations under the SFA, such as the maintenance of their relevant interests in listed specified products;
- Checking the returns and other documents to be submitted by the REIT Manager and its representatives to the MAS under the SFA from time to time, in relation to the REIT Manager's CMS license for the regulated activity of REIT management; and
- Conducting regulatory training, as and when requested, to the REIT Manager, its Directors and its representatives as part of the quarterly compliance review

# Corporate Governance Report

## **AUDIT COMMITTEE**

### **Principle 10:**

*The Board has an Audit Committee which discharges its duties objectively.*

## **AUDIT AND RISK COMMITTEE**

The ARC members are appointed by the Board from among its members. The ARC is comprised entirely of IDs, and its current members are Mr Willie Cheng (Chairman), Mr Huang Cheng Eng and Mr Kyle Lee.

The Board is of the view that the members of the ARC bring with them invaluable and relevant managerial and professional expertise in accounting and related financial management domains to discharge their responsibilities. Both Mr Willie Cheng and Mr Kyle Lee have extensive audit, accounting and financial management expertise and experience. In particular, they are Fellows of the Singapore Chartered Accountants, among other professional affiliations. The Board considers Mr Huang Cheng Eng as having sufficient financial management knowledge to discharge his responsibilities as a member of the ARC.

None of the ARC members are former partners or directors of Far East H-REIT's existing external auditing firm, Ernst & Young LLP ("EY").

## **KEY RESPONSIBILITIES AND ACTIVITIES OF THE ARC**

The ARC's responsibilities include:

- (i) Reviewing the financial statements of Far East H-Trust;
- (ii) Reviewing the significant financial reporting issues and judgements so as to ensure the integrity of the financial statements of Far East H-Trust, and announcements relating to Far East H-Trust's financial performance;
- (iii) Reviewing and reporting to the Board at least annually the adequacy and effectiveness of the REIT Manager's internal controls, including financial, operational, compliance and information technology controls, and risk management systems;
- (iv) Reviewing the adequacy and effectiveness of the Manager's internal audit and compliance functions;
- (v) Reviewing the scope and results of the external audit and independence and objectivity of the external auditors;
- (vi) Reviewing IPT and monitoring the procedures established to regulate IPT, including ensuring compliance with the provisions of the Listing Manual and the provisions of the Property Funds Appendix;
- (vii) Deliberating on resolutions relating to conflicts of interest involving Far East H-REIT;
- (viii) Monitoring the procedures in place to ensure compliance with applicable legislation, the Listing Manual and the Property Funds Appendix;
- (ix) Reviewing the arrangements by which employees of the REIT Manager may, in confidence, safely raise concerns about possible improprieties in matters of financial reporting or other matters and ensuring that arrangements are in place for the independent investigation of such matters and for appropriate follow-up action;
- (x) Making recommendations to the Board on the appointment, reappointment and removal of external auditors and approving the remuneration and terms of engagement of external auditors;
- (xi) Meeting with internal and external auditors, without the presence of the Management, at least once annually; and
- (xii) Reviewing the financial statements of Far East H-REIT.

The ARC has explicit authority to investigate any matter within its terms of reference. The ARC has full access to and co-operation by Management and the internal and external auditors and has full discretion to invite executive officers of the REIT Manager and the Sponsor, external consultants or advisers to attend its meetings. The internal and external auditors have unrestricted access to the ARC.

# Corporate Governance Report

During the year under review, four ARC meetings were held. The ARC has met separately with the internal auditor and external auditor, without the presence of the executive officers of the REIT Manager on two occasions each to discuss issues and to confirm that they had full access to and received co-operation and support from the Management.

The ARC has conducted a review of all non-audit services provided by EY, the external auditor, during the year under review. The aggregate amount of fees paid and payable to EY was S\$153,000, of which audit fees amounted to S\$76,500 and non-audit fees amounted to S\$76,500. The non-audit fees paid/payable to EY relates to general tax and GST compliance work. The statutory audit fee for Far East H-Trust is relatively low compared to peer organisations because a significant part of the audit work relating to Far East H-REIT's gross revenue has been performed by the auditors of the Master Lessees.

The fees paid to EY for non-audit services did not exceed 50% of the total fees paid. The ARC, having regard to the nature and performance of the work by EY, is of the view that the auditor's independence and objectivity are not impaired or threatened.

In reviewing the nomination of EY for re-appointment for the financial year ending 31 December 2019, the ARC had taken into consideration the Audit Quality Indicators Framework introduced by ACRA. The ARC also considered the adequacy and experience of the professional staff and audit engagement partner assigned, EY's experience in the REIT sector and the size and complexity of the audit. The ARC is satisfied with the independence and work of the external auditors and has recommended to the Board the re-appointment of EY as the external auditors of Far East H-Trust at the forthcoming annual general meeting.

The Board confirms that Far East H-Trust complies with the requirements of Rule 712 and Rule 715 of the Listing Manual in respect of the suitability of the auditing firm for Far East H-Trust.

## **WHISTLE BLOWING POLICY**

The REIT Manager has established a Whistle Blowing Policy and a Loss Management Policy for which relevant employees and Directors of the REIT Manager and the Trustee-Manager as well as external parties may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters in good faith, with the confidence that the relevant persons making the reports will be treated fairly and be protected from reprisal. The objective of the Whistle Blowing Policy is to ensure that arrangements are in place for such concerns to be raised and independently investigated, and for appropriate follow-up action to be taken. The Whistle Blowing Policy deals with defalcation, impropriety, or wrongdoing by employees in situations including but not limited to suspected fraud, corruption, and unlawful or dishonest conduct.

Whistle-blowers are given the option to remain anonymous and may report via an external independent hotline or directly to FEO's Head of Internal Audit. Establishing these policies reflects the REIT Manager's commitment to conduct its business within a framework that fosters the highest ethical standards.

The Whistle Blowing Policy is made available to all new employees when they join the REIT Manager, and they are briefed on this together with FEO's Code of Conduct. The Whistle Blowing Policy is also publicly disclosed on Far East H-Trust's website.

# Corporate Governance Report

## REVIEWS CONDUCTED BY THE ARC

During the year under review, the ARC performed independent reviews of the quarterly and full year financial results of Far East H-Trust before recommending to the Board for approval on the release of the financial statements and SGX announcements relating to Far East H-Trust's financial statements. In the process, the ARC reviewed the significant financial reporting issues and judgements, including the appropriateness of accounting policies and the quality and completeness of disclosure to ensure the integrity of the financial statements. The ARC also reviewed, among other matters, the following key audit matters ("KAM") identified by the external auditor for the financial year ended 31 December 2019:

Key Audit Matter	How the issue was addressed by ARC
Valuation of Investment Properties	<p>The ARC considered the approach and methodology applied to the valuation model in assessing the valuation of investment properties.</p> <p>The ARC noted that:</p> <ul style="list-style-type: none"> <li>• There was appropriate use of third party valuers who have recognised professional qualification and experience;</li> <li>• The valuers are changed every two years in accordance with the Property Fund Appendix, to provide independent and fresh perspective to the valuation process; and</li> <li>• Material judgmental assumptions used in the valuations were within reasonable parameters.</li> </ul> <p>The ARC considered the findings of the external auditor, including the assessment of the appropriateness of the valuation techniques and the underlying assumptions applied.</p> <p>It was noted also that the valuation of investment properties as at 31 December 2019 did not take into account the subsequent event of the COVID-19 outbreak, which had begun with the first confirmed case in Singapore, on 23 Jan 2020.</p> <p>The ARC considered the valuation of the investment properties to be appropriate.</p>

The ARC reviewed and approved the audit plan and scope of the external auditors on the audit of the full year financial statements. The ARC also reviewed and approved the internal audit plan and scope of the internal auditor's work and its audit programme. It reviewed the findings during the year and Management's responses thereto and it satisfied itself to the adequacy of the internal audit function. In addition, the ARC reviewed the IPT to ensure compliance with the Listing Manual and the Property Funds Appendix.

Changes to the accounting standards and issues which have direct impact on the financial statements were reported and discussed with the ARC at its meetings. The ARC has considered the introduction of new accounting standards for the annual periods beginning on 1 January 2020 and the effect to the financial statements of Far East H-Trust.

The ARC does not expect the adoption of the new standards to have material impact to the financial statements of Far East H-Trust.

# Corporate Governance Report

## **ROLE AND DUTIES OF INTERNAL AUDITORS**

The role of the internal auditors is to assist the ARC to ensure that the REIT Manager maintains a sound system of internal controls by regularly monitoring key controls and procedures and ensuring their effectiveness, undertaking investigations as directed by the ARC, and conducting regular in-depth audits of high risk areas.

The ARC approves the hiring, removal, evaluation and compensation of the internal auditor, or the accounting/auditing firm or corporation to which the internal audit function is outsourced. Far East H-Trust and the REIT Manager have engaged BDO LLP as the internal auditor. BDO LLP adopts the Standards for the Professional Practice of Internal Auditing set by the Institute of Internal Auditors (IIA). The internal auditor is independent of management and reports directly to the Chairman of the ARC and administratively to the CEO.

The internal auditor plans the internal audit schedules in consultation with, but independent of the REIT Manager. The audit plan is submitted to the ARC for approval prior to the commencement of the internal audit work. The internal auditor has unfettered access to all the REIT Manager's documents, records, properties and personnel, including access to the ARC. The ARC reviews the internal audit report quarterly and monitors the implementation of the improvements required on internal control weaknesses identified.

During the year under review, Far East Management (Private) Limited ("FEMPL") assisted in administering the Whistle Blowing Policy and Loss Management Policy of the REIT Manager. FEMPL reports to the ARC on any whistle-blowing report or loss management incidents.

For the year under review, the ARC is of the view that the internal audit function is adequately resourced and has appropriate standing within the company. The ARC has reviewed and is satisfied with the adequacy, independence and effectiveness of the internal audit function.

For the year commencing 1 January 2020, Far East H-Trust and the REIT Manager have engaged another accounting/auditing firm as the internal auditor, to provide internal audit services over a three-year period. This rotation of the outsourced internal audit firm is in line with the REIT Manager's and ARC's continued practice to uphold good corporate governance standards for Far East H-Trust.

## **(D) SHAREHOLDER RIGHTS AND ENGAGEMENT**

### **SHAREHOLDER RIGHTS AND CONDUCT OF GENERAL MEETINGS**

#### **Principle 11:**

*The company treats all shareholders fairly and equitably in order to enable them to exercise shareholders' rights and have the opportunity to communicate their views on matters affecting the company. The company gives shareholders a balanced and understandable assessment of its performance, position and prospects.*

The Board is responsible for providing a balanced and understandable assessment of Far East H-REIT's performance, position and prospects. In this regard, Management provides timely, complete, adequate information to the Board through the most expedient means. On a monthly basis, Management provides the Board with a set of management accounts and analysis, as well as an update on Far East H-REIT's operating performance.

The Board embraces openness and transparency in the management of Far East H-REIT, whilst preserving the commercial interests of Far East H-REIT. Financial reports, press releases, media and analyst presentation slides and other price sensitive information are disseminated to Stapled Securityholders through announcements via SGXNET and Far East H-Trust's website.

# Corporate Governance Report

The REIT Manager is committed to treating all Stapled Securityholders fairly and equitably, and seeks to facilitate the exercise of ownership rights by all Stapled Securityholders.

Far East H-Trust is committed to communicating with investors, analysts and the investment community in a timely and comprehensive manner. Far East H-Trust releases corporate information through posting announcements on SGXNET and Far East H-Trust's corporate website. Far East H-Trust continues to strive towards improving the standard of disclosures and transparency to help investors make more informed investment decisions.

At Far East H-Trust's 7th Annual General Meeting ("AGM") held on 17 April 2019, the Chairman of the meeting with the assistance of the service providers, briefed Stapled Securityholders on the rules of the meeting, including poll voting procedures, which govern the meeting before they vote on the resolutions at the meeting by way of poll. The CEO of Far East H-Trust also made a presentation to update Far East H-Trust's Stapled Securityholders on the market and industry operating environment, performance of Far East H-Trust's hotels and serviced residences, asset enhancement initiatives that had taken place during the year, and other recent developments in relation to acquisitions or projects that had been undertaken.

Stapled Securityholders are informed of AGMs or EGMs through reports or circulars sent to them. Notices of the general meetings are also put up in the press and issued via SGXNET. The requisite notice period for general meetings is adhered to.

Stapled Securityholders are encouraged to attend and participate by voting at the general meetings. Opportunity is given to every Stapled Securityholder to interact with Directors and Management of the REIT Manager, to communicate their views and ask questions on matters affecting Far East H-REIT. If any Stapled Securityholder is unable to attend, he/she is allowed to appoint up to two proxies to vote on his/her behalf at the meetings through proxy forms sent in advance. Having considered that Stapled Securityholders who are unable to attend in person may vote by proxy or by attorney, or in the case of a corporation, by a representative, the REIT Manager has decided, for the time being, to refrain from implementing absentia voting until security, integrity, and other pertinent issues are satisfactorily resolved.

All Directors, key management personnel of the REIT Manager and representatives from REIT Trustee are present to address Stapled Securityholders' queries at the AGM and EGM. The external auditor is also present to answer Stapled Securityholders' questions about the conduct of audit and the content of the auditors' report.

Each distinct issue is proposed as a separate resolution at the general meetings and the reasons and material implications are explained. All the resolutions at the AGM and EGM are moved by voting by poll. The voting and vote tabulation procedures are declared before the voting commences, and an independent scrutineer is appointed to count and validate the votes. The voting results, showing the number of votes cast for and against each resolution and the respective percentages, are disclosed at the general meetings right after the votes are casted.

After the general meetings, announcements of the voting results are also made through SGXNET and on Far East H-Trust's website.

The REIT Manager publishes minutes of general meetings of Stapled Securityholders on its corporate website, as soon as practicable. The minutes of Stapled Securityholders' meetings capture the attendance of Board members at the meetings, matters approved by Stapled Securityholders, voting results and substantial and relevant comments or queries from Stapled Securityholders relating to the agenda of the meetings, together with responses from the Board and Management. These minutes are also available to our Stapled Securityholders upon their request.

# Corporate Governance Report

Far East H-REIT's distribution policy is to distribute at least 90% of its taxable income. This distribution policy is stated on the corporate website. The actual level of distribution will be determined at the REIT Manager's discretion, taking into account the needs of Far East H-REIT for capital expenditure, working capital requirements and the liquidity position of Far East H-REIT. Since Far East H-Trust's listing in 2012, Far East H-Trust has distributed 100% of its taxable income to Stapled Securityholders.

## **ENGAGEMENT WITH SHAREHOLDERS**

### **Principle 12:**

*The company communicates regularly with its shareholders and facilitates the participation of shareholders during general meetings and other dialogues to allow shareholders to communicate their views on various matters affecting the company.*

The REIT Manager has established an Investor Relations Policy that governs regular, effective and fair communication with Stapled Securityholders.

Material information is disclosed in a comprehensive, accurate and timely manner via SGXNET and on Far East H-Trust's website. The CEO, CFO and the investor relations team of the REIT Manager actively engage institutional investors, analysts and fund managers to solicit and understand the views of the investment community via:

- Analyst briefings held every quarter after the financial results announcement;
- One-on-one or group meetings, conference calls, investor luncheons, local/overseas road shows and conferences; and
- Far East H-Trust's website at [www.fehtrust.com](http://www.fehtrust.com) (an email alert option is available to subscribers who wish to be notified of newly posted announcements, press releases, presentations and publications).

During the analyst briefings, analysts are given the opportunity to ask questions. The questions are responded to by the CEO or CFO immediately.

The REIT Manager has established Far East H-Trust's corporate website as an information resource centre for retail and institutional investors and for regular dialogue with investors, such as to gather their views or inputs. They can also send their feedback or voice any concerns through Far East H-Trust's corporate email: [enquiry@fehtrust.com](mailto:enquiry@fehtrust.com).

With a majority of Stapled Securities held by institutional investors, Management considers meetings with local and foreign fund managers an integral part of investor relations. During the year under review, the CEO, CFO and the investor relations team have met with institutional investors from Singapore, Hong Kong, Thailand and Japan. These meetings and road shows with investors enabled the CEO to update potential and existing Stapled Securityholders on Far East H-Trust's developments. The Manager also participated in various local and overseas conferences as part of its efforts to build interest in Far East H-Trust. The Manager also arranged site visits for fund managers and analysts, which enabled them to gain insights into the quality and scale of Far East H-Trust's property portfolio.

# Corporate Governance Report

## (E) MANAGING STAKEHOLDER RELATIONSHIPS

### ENGAGEMENT WITH STAKEHOLDERS

#### Principle 13:

*The Board adopts an inclusive approach by considering and balancing the needs and interests of material stakeholders, as part of its overall responsibility to ensure that the best interests of the company are served.*

Far East H-Trust strives to maintain open and fair communication with its key stakeholders, to understand their views, concerns, and objectives in order to work towards more sustainable growth. With the support of an external consultant, KPMG Services Pte Ltd, the REIT Manager has identified stakeholder groups which have a significant influence and interest in Far East H-Trust's operations and business, and engaged these stakeholders to understand their ESG expectations. The key stakeholders identified are the REIT's Board of Directors (the "Board"), employees, Sponsor, Stapled Securityholders and investment community, hotel and serviced residence operator (the "Operator"), media, government/regulators and industry/business associations, and the local community.

The Sustainability Report section of the Annual Report provides more details about the strategy and key areas of focus in relation to the management of stakeholder relationships during the reporting period, including:

- Adoption of environmentally friendly practices (energy conservation, etc)
- Delivering long-term sustainable and growing distributions to the Stapled Securityholders
- Ensuring the safety, welfare and development of employees

Far East H-Trust maintains a current corporate website at [www.fehtrust.com](http://www.fehtrust.com), and an email alert option is available to subscribers who wish to be notified of newly posted announcements, press releases, presentations and publications. In this way, the company hopes to have good communication and engagement with all its material stakeholders.

## (F) ADDITIONAL INFORMATION

### DEALINGS IN STAPLED SECURITIES

The REIT Manager has adopted its own Trading Policy to provide guidance to relevant employees and Directors of the Sponsor, the REIT Manager and the Trustee-Manager in the dealing of the Stapled Securities. The Trading Policy sets out the implications of insider trading and principles that all relevant employees and Directors have to observe at all times:

- To act in the best interests of Stapled Securityholders;
- To avoid, and be seen to avoid, actual or potential conflict between personal interest and that of the Stapled Securityholders;
- To comply with the prohibition on trading in the Stapled Securities;
- To inform the Compliance Manager of Far East H-Trust within two working days of completion of the trade; and
- To avoid dealing in the securities of Far East H-Trust on short term considerations.

All relevant employees and Directors are strictly prohibited to deal in the following instances:

- During the period commencing two weeks before the announcement of Far East H-Trust's financial statements for each quarter of its financial year, and one month before the announcement of Far East H-Trust's financial statements for the full financial year, as the case may be, and ending on the date of announcement of the relevant results; and
- At any time when relevant employees and Directors are in possession of material or price sensitive information that is not available in the market.

# Corporate Governance Report

## **CORRUPTION AND BRIBERY PREVENTION POLICY**

The REIT Manager adopts a strong stance against bribery and corruption. There are detailed guidelines and procedures listed in FEO's Code of Conduct for the giving and receiving of gifts (monetary or otherwise), kickbacks, concessionary offers, lavish entertainment, and business dealings that may place the employee under any real or apparent obligation or indebtedness to any party. In relation to these guidelines, all employees of the REIT Manager are required to make a declaration on an annual basis where they pledge to be compliant and uphold the core values in line with the Code of Conduct, which include not engaging in any corrupt or unethical practices. This serves as a reminder to all employees to maintain the highest standards of integrity in their work and business dealings. The REIT Manager's zero tolerance policy towards bribery and corruption extends to its business dealings with third parties, and hence the REIT Manager requires that certain agreements incorporate anti-bribery and anti-corruption provisions.

FEO's Code of Conduct is published on the intranet which is accessible by all employees of the REIT Manager. New employees of the REIT Manager are briefed on the Code of Conduct and are required to read and acknowledge the guidelines listed therein when they join the REIT Manager.

## **DISCLOSURES ON FEES PAYABLE TO THE REIT MANAGER**

Pursuant to the Trust Deed, the REIT Manager is entitled to receive fees payable out of the deposited property of Far East H-REIT.

The methodology for the computation and payment of fees, with reference to the relevant clauses in the Trust Deed, is disclosed on pages 131 to 132 under the "Notes to the Financial Statements" section of this Annual Report.

The management fees are earned by the REIT Manager for the management of Far East H-REIT's portfolio of properties. These fees are reviewed from time to time and benchmarking is conducted to ensure alignment to the interests of Far East H-Trust's Stapled Securityholders. In the review conducted this financial year, the Board, with the support of the Trustee, approved changes to the base and performance fee to further align with Securityholders' interests.

The various fees earned by the REIT Manager are elaborated below:

### **BASE FEE AND PERFORMANCE FEE**

The base fee covers the day-to-day operational, compliance, monitoring and reporting costs as well as administrative overheads incurred by the REIT Manager. The base fee represents the compensation to the REIT Manager for executing its core responsibilities and is based on a percentage of the value of the Far East H-REIT's deposited properties, which is an appropriate metric to determine the resources required for managing Far East H-REIT. As Far East H-REIT grows in portfolio size, the complexity of management increases and the REIT Manager is expected to expend greater effort in fulfilling its responsibilities. From 1 January 2020, the base fee is reduced from 0.3% to 0.28% per annum of the value of deposited property.

The performance fee, which is currently based on net property income, is an objective benchmark and incentivises the REIT Manager to proactively manage its portfolio, which may include but are not limited to asset enhancement initiatives, repositioning or re-branding of its properties, re-segmentation of its properties' customer base and driving cost efficiencies to improve profit margins. From 1 January 2020, the performance fee is changed to the lower of 4% of the net property income or annual distributable amount (after accounting for base fee but before accounting for performance fee).

Such fee methodology aligns the interests of the REIT Manager and Stapled Securityholders and ensures the long-term sustainability of the assets, instead of taking on excessive short-term risks to the detriment of the Stapled Securityholders.

# Corporate Governance Report

## **ACQUISITION FEE AND DIVESTMENT FEE**

To continue delivering long-term sustainable distribution income to the Stapled Securityholders, the REIT Manager regularly reviews its portfolio of properties and sources for growth opportunities and yield-accretive acquisitions, and efficiently recycles capital through the divestment of underperforming or non-core assets. This involves a thorough review of the exposures, risks and returns as well as the overall value-add of the acquisition or divestment to the existing portfolio and future growth expectations.

The acquisition fee and divestment fee payable to the REIT Manager serve as a form of compensation for the time, effort and resources spent in sourcing, evaluating and executing potential opportunities to acquire new properties or in rebalancing and unlocking the underlying value of the existing properties within its asset portfolio to optimise Far East H-REIT's returns. The REIT Manager provides these services over and above the provision of ongoing management services with the aim of ensuring income sustainability and achieving the investment objectives of Far East H-REIT.

The acquisition fee is 0.75% of purchase consideration for properties from related parties and 1% for properties for all other cases (or lower as the REIT Manager can determine). The divestment fee is 0.5% of the sale price. The acquisition fee is higher than the divestment fee because the time and efforts undertaken in terms of sourcing, evaluating and conducting due diligence, and fund raising for an acquisition, are higher as compared to a divestment.

## **STATEMENT OF POLICIES AND PRACTICES**

Apart from the corporate governance practices disclosed in pages 69 to 100, the Trustee-Manager has prepared a statement of policies and practices in relation to the management and governance of Far East H-BT (as described in section 87(1) of the Business Trusts Act, Chapter 31A of Singapore) in respect of FY2019, which is set out on pages 101 to 107 in this Annual Report.