

CORPORATE GOVERNANCE

Note:

The questions listed out in this column are extracted from the Singapore Exchange Limited's Disclosure Guide on Compliance with the Code of Corporate Governance 2012. The response to each question is set out in bold after each question.

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

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

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

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

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

General

(a) Has the Company complied with all the principles and guidelines of the Code? If not, please state the specific deviations and the alternative corporate governance practices adopted by the Company in lieu of the recommendations in the Code.

The differences in practices are set out within the report.

(b) In what respect do these alternative corporate governance practices achieve the objectives of the principles and conform to the guidelines in the Code?

The reasons for the differences in practices are also set out within the report.

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HBT was activated on 31 December 2013. It acts as the master lessee of Jumeirah Dhevanafushi as well as the Japan hotels which were acquired by H-REIT. In addition to its function as a master lessee, HBT may also undertake certain hospitality and hospitality-related development projects, acquisitions and investments which may not be suitable for H-REIT. On 1 October 2015, HBT completed the acquisition of Hilton Cambridge City Centre (previously known as Cambridge City Hotel), a purpose-built upper upscale hotel located in Cambridge, United Kingdom.

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

Both H-REIT and HBT are externally managed by the H-REIT Manager and HBT Trustee-Manager respectively. Accordingly, both H-REIT and HBT do not have personnel of their own. Experienced and well-qualified management staff are employed to run the day-to-day operations. The H-REIT Manager and HBT Trustee-Manager, not H-REIT, HBT or CDLHT, remunerate all the Directors and employees of the H-REIT Manager and HBT Trustee-Manager respectively.

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

The Managers are committed to maintaining good corporate governance and business integrity in all of CDLHT's business activities.

BOARD MATTERS

Principle 1: The Board's Conduct of Affairs

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

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

The H-REIT Manager Board and the HBT Trustee-Manager Board have established a framework for the management of the Managers, H-REIT and HBT, including a system of internal controls and a business risk management process. The H-REIT Manager Board and the HBT Trustee-Manager Board meet quarterly or more often if necessary and review the financial performance of H-REIT and HBT respectively against a previously approved budget. The H-REIT Manager Board and the HBT Trustee-Manager Board also review the business risks of H-REIT and HBT respectively, examine liability management and act upon any comments from both the internal and external auditors of H-REIT and HBT respectively. In assessing business risks, the H-REIT Manager Board and the HBT Trustee-Manager Board also consider the economic environment and risks relevant to the property industry. They also review management reports and feasibility studies on individual projects prior to approving major transactions.

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Independent Judgement

All the Directors of the Managers are required to exercise objective decision-making in the interests of H-REIT and HBT. The H-REIT Manager Directors and the HBT Trustee-Manager Directors who are in any way, directly or indirectly, interested in a transaction or proposed transaction will declare the nature of their interests in accordance with the provisions of the Companies Act, Chapter 50 of Singapore, and also voluntarily abstain from deliberation on the same.

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

The primary functions of the H-REIT Manager Board and the HBT Trustee-Manager Board are either carried out directly by the H-REIT Manager Board and the HBT Trustee-Manager Board or through committees established by the H-REIT Manager Board and the HBT Trustee-Manager Board.

On 29 December 2015, the H-REIT Manager Board and the HBT Trustee-Manager Board merged their respective Audit Committees ("**AC**") and Risk Management Committees ("**RMC**"), after reviewing the functions of the AC and RMC and noted the overlapping roles and responsibilities of both committees. Following the dissolution of the AC and RMC, a merged board committee known as the Audit and Risk Committee ("**ARC**") was established by each of the H-REIT Manager Board and the HBT Trustee-Manager Board to undertake the functions and responsibilities of both the previous AC and the RMC.

Specific written terms of reference, duly approved by the H-REIT Manager Board and the HBT Trustee-Manager Board respectively, set out the authority and duties of the ARC. The H-REIT Manager Board and the HBT Trustee-Manager Board will review such terms of reference periodically to ensure their continued relevance. The composition of the ARC can be found under the corporate directory section in this Annual Report 2015 ("**Annual Report**").

The delegation of authority by the H-REIT Manager Board and the HBT Trustee-Manager Board to the respective ARC enables the H-REIT Manager Board and the HBT Trustee-Manager Board to achieve operational efficiency by empowering these committees to decide, review and make recommendations on matters within their respective written terms of reference and/or limits of delegated authority and yet without abdicating their respective responsibility. Please refer to the sections on Principles 11 and 12 in this report for further information on the activities of the ARC.

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

Meetings of the Board, AC and RMC of the Managers were held regularly. For the H-REIT Manager and HBT Trustee-Manager, five Board Meetings, four AC Meetings and two RMC Meetings were held in 2015. A meeting of the Independent Directors ("**IDs**") of the H-REIT Manager Board and HBT Trustee-Manager Board, chaired by the lead independent Director ("**Lead ID**") was also held in 2015 to discuss matters without the presence of Management and Chairman.

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

The attendance of the H-REIT Manager Directors and the HBT Trustee-Manager Directors at meetings of the Board and committees of the Managers, as well as the frequency of such meetings during 2015, are disclosed below. Notwithstanding such disclosure, the H-REIT Manager Board and the HBT Trustee-Manager Board are of the view that the contribution of each Director should not be focused only on his/her attendance at meetings of the Board and/or the Committees.

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

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Directors' Attendance at Board and Committee Meetings of the H-REIT Manager in 2015

	Board	AC	RMC
No. of Meetings held in 2015	5	4	2
Name of Directors	Number of meetings attended in 2015		
Wong Hong Ren	4	N. A.	N. A.
Vincent Yeo Wee Eng	5	N. A.	2
Jenny Lim Yin Nee	5	4	2
Jimmy Chan Chun Ming	5	4	N. A.
Daniel Marie Ghislain Desbaillets	5	N. A.	N. A.
Ronald Seah Lim Siang	5	4	2
Ronald Nathaniel Issen	5	N. A.	N. A.

Directors' Attendance at Board and Committee Meetings of the HBT Trustee-Manager in 2015

	Board	AC	RMC
No. of Meetings held in 2015	5	4	2
Name of Directors	Number of meetings attended in 2015		
Wong Hong Ren	4	N. A.	N. A.
Vincent Yeo Wee Eng	5	N. A.	2
Jenny Lim Yin Nee	5	4	2
Jimmy Chan Chun Ming	5	4	N. A.
Daniel Marie Ghislain Desbaillets	4	N. A.	N. A.
Ronald Seah Lim Siang	5	4	2
Ronald Nathaniel Issen	4	N. A.	N. A.

Guideline 1.5

What are the types of material transactions which require approval from the Board?

Please refer to the paragraph under the heading "H-REIT Manager Board and the HBT Trustee-Manager Board Approval".

Guideline 1.6

(a) Are new directors given formal training? If not, please explain why.

Yes, please refer to the section under the heading "H-REIT Manager and HBT Trustee-Manager Board Orientation and Training".

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

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

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

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

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Guideline 1.6

(b) What are the types of information and training provided to (i) new directors and (ii) existing directors to keep them up-to-date?

The type of information and training provided are set out in the section under the heading "H-REIT Manager and HBT Trustee-Manager Board Orientation and Training".

Guideline 2.1

Does the Company comply with the guideline on the proportion of independent directors on the Board? If not, please state the reasons for the deviation and the remedial action taken by the Company.

Yes. Please refer to the paragraph with the header "Board Independence".

Guideline 2.3

(a) Is there any director who is deemed to be independent by the Board, notwithstanding the existence of a relationship as stated in the Code that would otherwise deem him not to be independent? If so, please identify the director and specify the nature of such relationship.

No.

(b) What are the Board's reasons for considering him independent? Please provide a detailed explanation.

Not applicable.

Guideline 2.4

Has any independent director served on the Board for more than nine years from the date of his first appointment? If so, please identify the director and set out the Board's reasons for considering him independent.

Yes. The Directors are identified in paragraph 3 of the section under the header "Board Independence", and the Boards' reasons for considering them independent are set out in the same paragraph.

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

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

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

Four in-house seminars were conducted in 2015 by invited speakers on topics relating to transfer pricing, cyber security and big data analytics for companies, integrating sustainability for greater business value, financial reporting surveillance programme by ACRA, tax transparency and corporate governance updates for the Directors. In 2015, the Directors were also briefed on the "Prevention of Money Laundering and Countering the Financing of Terrorism" and the "Response to Feedback Received: Consultation on Enhancements to the Regulatory Regime Governing REITs and REIT Managers" by KPMG and Allen & Gledhill LLP respectively. In addition to the training courses/programmes and briefing updates, Directors are also at liberty to approach Management should they require any further information or clarification concerning the Managers' operations.

Principle 2: Board Composition and Guidance

Board Independence

The Boards of the H-REIT Manager and the HBT Trustee-Manager currently consist of seven members each. All members of the Boards, except for the Chief Executive Officer ("CEO"), are non-executive Directors ("NEDs"). Of the six NEDs, four of them ("4 NEDs"), being more than half of the Boards, are independent¹ directors, thus providing for a strong and independent element on the Boards capable of exercising objective judgement on corporate affairs of the H-REIT Group and the HBT Group. No individual or small group of individuals dominates the Boards' decision-making.

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

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When reviewing the independence of the 4 NEDs, the Boards of the H-REIT Manager and the HBT Trustee-Manager had considered the guidelines for independence set out in Guideline 2.3 of the 2012 Code and the Business Trusts Regulations 2005. The 4 NEDs are Ms Jenny Lim, Mr Jimmy Chan, Mr Daniel Desbaillets and Mr Ronald Seah. For purposes of determination of independence, the 4 NEDs have also provided declarations regarding their independence.

In considering the independence of Ms Jenny Lim and Mr Jimmy Chan, both of whom have served on the H-REIT Manager Board and the HBT Trustee-Manager Board for more than nine years, the Directors have given due consideration to the recommendation under Guideline 2.4 of the 2012 Code that the independence of any director who has served on the Boards beyond nine years be subject to particularly rigorous review. Guided by relevant questions provided by the Nominating Committee Guide issued by SID in 2015, the Boards noted observations/instances where Ms Lim and Mr Chan had opined and commented on various acquisition deals, sought Management's clarification as well as challenged Management's recommendations on matters pertaining to their area of responsibilities, whether as a member on the Board or on the committees.

The Boards (with Ms Lim and Mr Chan abstaining respectively in respect of the deliberation over their own independence) have concurred that Ms Lim and Mr Chan are independent, notwithstanding they have served on the Boards beyond nine years, as they have continued to demonstrate strong independence in character and judgement in the discharge of their responsibilities as Directors of the Company. The Managers have also benefited from their years of experience in their respective fields of expertise.

The Boards are cognisant of the new requirements introduced by MAS in relation to the independence of Directors who have served on the Board of Directors for more than 9 years and are taking steps to ensure compliance with MAS' requirements which will take effect no later than the first AGM relating to financial year ending on or after 31 December 2016.

Guideline 2.6

(a) What is the Board's policy with regard to diversity in identifying director nominees?

Please refer to the first paragraph of the section under the heading "H-REIT Manager/ HBT Trustee-Manager Board Composition and Size".

(b) Please state whether the current composition of the Board provides diversity on each of the following – skills, experience, gender and knowledge of the Company, and elaborate with numerical data where appropriate.

Please refer to the second and third paragraphs of the section under the heading "H-REIT Manager/ HBT Trustee-Manager Board Composition and Size".

(c) What steps has the Board taken to achieve the balance and diversity necessary to maximise its effectiveness?

Please refer to the second paragraph of the section under the heading "H-REIT Manager/ HBT Trustee-Manager Board Composition and Size".

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

The composition of the H-REIT Manager Board and the HBT Trustee-Manager Board is determined using the following principles:

- the Chairman of the H-REIT Manager Board and the HBT Trustee-Manager Board should be a non-executive Director of the H-REIT Manager and the HBT Trustee-Manager;
- the H-REIT Manager Board and the HBT Trustee-Manager Board should comprise Directors with a broad range of commercial experience including expertise in funds management and the hospitality and real estate industries; and
- while H-REIT Units remain stapled to HBT Units, in order to avoid any conflict between H-REIT and HBT and to act in the best interest of CDLHT (a stapled group comprising the H-REIT Group and the HBT Group) (the "**Stapled Group**"), each of the Directors of the H-REIT Manager Board is also a Director of the HBT Trustee-Manager Board, and vice versa. Accordingly, in order for the HBT Trustee-Manager Board to comply with the requirement under Regulation 12 of the Business Trust Regulations 2005 for at least a majority of the Directors of the board of the trustee-manager of a business trust to comprise Directors who are independent from management and business relationships with the trustee-manager, majority of both the H-REIT Manager Board and the HBT Trustee-Manager Board are independent Directors.

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The H-REIT Manager Board and the HBT Trustee-Manager Board have also considered the core competencies of the Boards based on the skills and experience of each Director, and are of the view that the Boards have the critical skills and expertise needed in the strategic direction and planning of the business of H-REIT and HBT. The current composition of the Boards comprises directors who have experience in real estate and hotel related businesses, the food and beverage industry, business management, strategic planning, investment analysis, corporate finance, investment portfolio management, audit and taxation, corporate reorganisations and mergers and acquisitions. There is also gender diversity on the Boards. Further information on the individual Directors' background, experience and skills can be found on the "Board of Directors" section in the Annual Report.

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

NEDs' Participation

NEDs of the H-REIT Manager and the HBT Trustee-Manager are encouraged to participate actively in Board meetings in the development of H-REIT's and HBT's strategic direction and plans, in the review and monitoring of Management's performance through periodic reports from the Management, and have unrestricted access to the Management. They also sit on various committees established by the Boards of the H-REIT Manager and the HBT Trustee-Manager to provide constructive input and the necessary review and monitoring of performance of H-REIT, HBT and the Management. The H-REIT Manager held a meeting of the independent Directors chaired by the Lead ID in January 2015 (without the presence of Management and Chairman).

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

The roles of the Chairman and CEO are separate. The Chairman, Mr Wong Hong Ren, is a non-executive Director while the CEO, Mr Vincent Yeo, is an executive Director. This ensures an appropriate balance of power, increased accountability and greater capacity of the H-REIT Manager Board and the HBT Trustee-Manager Board for independent decision-making. The Chairman is not related to the CEO.

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

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

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

Lead Independent Director

Ms Jenny Lim, the Lead ID of the H-REIT Manager and HBT Trustee-Manager, serves as an intermediary between the independent NEDs and the Chairman. The role of each of the H-REIT Manager Board's Lead ID and the HBT Trustee Manager Board's Lead ID is set out under the written terms of reference of the Lead ID which have been approved by the Board of the H-REIT Manager and the Board of the HBT Trustee-Manager.

The Lead ID is available to the Stapled Security Holders of CDLHT should they have concerns and for which contact through the normal channels of the Chairman or the Management has failed to resolve or is inappropriate. No query or request on any matter which requires the Lead ID's attention was received from the Stapled Security Holders in 2015. Under the chairmanship of the Lead ID, a meeting of the independent Directors of the H-REIT Manager was convened in January 2015 (without the presence of Management or the Chairman) and separate meetings of the independent Directors of both the H-REIT Manager and HBT Trustee-Manager were also convened in January 2016.

Principle 4: Board Membership

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

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

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

Establishment of Nominating and Remuneration Committee

In 2015, the Board deliberated and considered the establishment of a Nominating and Remuneration Committee ("NRC"), in line with recommendations by the MAS. The establishment of the NRC, together with its terms of reference, was formalised in January 2016 to undertake such roles and responsibilities relating to *inter alia* Board/Board Committee composition, determination of directors' independence, evaluation of Board performance, review of remuneration packages of Directors and Senior Management which are currently overseen by the Board.

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

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

Guideline 4.6

Please describe the board nomination process for the Company in the last financial year for (i) selecting and appointing new directors and (ii) re-electing incumbent directors.

Please refer to the paragraph under the heading "Criteria and Process for Nomination and Selection of New Directors and Re-Election of Directors of the H-REIT Manager and HBT Trustee-Manager".

Guideline 4.4

(a) What is the maximum number of listed company board representations that the Company has prescribed for its directors? What are the reasons for this number?

There is no maximum number prescribed.

(b) If a maximum number has not been determined, what are the reasons?

Please refer to the explanation under the heading "H-REIT Manager and HBT Trustee-Manager Directors' Time Commitments".

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Guideline 4.4

(c) What are the specific considerations in considering the capacity of Directors?

Please refer to the paragraph under the heading "Criteria and Process for Nomination and Selection of New Directors and Re-Election of Directors of the H-REIT Manager and HBT Trustee-Manager".

Based on an annual analysis of directorships held by the Directors as well as each Director's confirmation as to whether he/she has any issue with competing time commitments which may impact his/her ability to provide sufficient time and attention to his/her duties as a Director on the respective Boards, the Boards were satisfied that all Directors are able to carry out and have been adequately carrying out their duties as a Director of the Managers. The Boards of the H-REIT Manager and HBT Trustee-Manager further noted that, excluding the directorship held in the H-REIT Manager Board and HBT Trustee-Manager Board, the number of listed company board representations currently held by the Directors did not exceed 4.

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

Key Information on Directors

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

Board Development

The Directors are provided with updates and/or briefings to assist them to properly discharge their duties. The briefings are conducted either internally with invited speakers, or externally, at the expense of the H-REIT Manager or HBT Trustee-Manager (as the case may be). A separate programme is established for new Directors, details of which together with details of the internal briefing and updates provided to the Directors in 2015 are set out in the paragraph under the header "H-REIT Manager and HBT Trustee-Manager Board Orientation and Training".

The members of the Boards are kept apprised twice yearly on a list of training programmes attended by the Directors during the year.

Guideline 5.1

(a) What was the process upon which the Board reached the conclusion on its performance for the financial year?

Please refer to the paragraph under the heading "Board Performance".

(b) Has the Board met its performance objectives? The Boards have reviewed their performance.

Please refer to the paragraph under the heading "Board Performance".

Principle 5: Board Performance

The H-REIT Manager Board and HBT Trustee-Manager Board have in place formal processes to assess the effectiveness of each Board as a whole, the various Board Committees and the contribution by each Director to the effectiveness of the Board and the Board Committees, where applicable. No external facilitator has been used. The performance of each Board was assessed through feedback from individual Directors on areas relating to the Board's competencies and effectiveness for the financial year ended 31 December 2015.

Principle 6: Access to Information

Complete, Adequate and Timely Information and Access to Management

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

CORPORATE GOVERNANCE

Guideline 6.1

What types of information does the Company provide to independent directors to enable them to understand its business, the business and financial environment as well as the risks faced by the Company? How frequently is the information provided?

Please refer to the sections under the headings "Complete, Adequate and Timely Information and Access to Management" and "Accountability of the Board and Management of the H-REIT Manager and the HBT Trustee-Manager".

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

Company Secretary

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

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

Independent Professional Advice

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

REMUNERATION MATTERS

All Directors and employees of the Managers are remunerated by the H-REIT Manager and HBT Trustee-Manager, not H-REIT nor HBT respectively.

Principle 7: Procedures for Developing Remuneration Policies

The H-REIT Manager and HBT Trustee-Manager Boards have adopted a Remuneration Framework (which covers all aspects of remuneration) for Directors and Key Management Personnel ("**KMP**") which serves as an overview of the Remuneration Policy to be deliberated upon in detail by the NRC pursuant to its establishment in January 2016.

Principle 8: Level and Mix of Remuneration

All Directors, including Executive Directors, will receive a fixed base director's fee and the Lead ID will receive an additional fee to reflect her expanded responsibility. Directors who serve on the various Committees also receive additional fees in respect of each Committee that they serve on. For FY 2015, the chairman of the AC will receive a higher fee in respect of her service as chairman of the committee. Such fees are subject to shareholders' approval at the respective annual general meetings of H-REIT Manager and HBT Trustee-Manager.

CORPORATE GOVERNANCE

Guidelines 9.2, 9.3 and 9.4
Please refer to the sections under the headings "Remuneration Matters" and "Principle 9: Disclosure on Remuneration".

Guidelines 9.6

(a) Please describe how the remuneration received by executive directors and key management personnel has been determined by the performance criteria.

(b) What were the performance conditions used to determine their entitlement under the short-term and long-term incentive schemes?

(c) Were all of these performance conditions met? If not, what were the reasons?

Please refer to the Manager's remuneration policy as set out in paragraph under Principle 8, which provides that one of its key objectives is to ensure that employees are rewarded in an equitable way for achieving corporate and individual performance targets. The remuneration packages of the executive officers of the Manager include variable components (in the form of variable bonuses) which are tied to the performance of the individual employees. Individual performance is based on an annual appraisal of each executive officer of the Managers.

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

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

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

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

Under the Managers' remuneration policy, the remuneration packages for employees, including the Executive Director, comprises a fixed base component (in the form of a base salary) and a variable bonus. Employees are also provided with the standard benefits including insurance and medical benefits.

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

Principle 9: Disclosure on Remuneration

The Directors' fees take into account the Directors' level of contribution and their respective responsibilities, and include Board Committee fees in addition to their base fee. For FY 2015, the aggregate amount of Directors' fees receivable by each of the Directors of the H-REIT Manager Board was less than S\$250,000. These fees will be subject to approval by shareholders of the H-REIT Manager. No Director is involved in deciding his own remuneration. The Directors of the HBT Trustee-Manager Board did not receive any Directors' fees for FY 2015.

The Boards of the Managers have assessed and decided against the disclosure of the Directors' fees on a named basis in exact quantum, and believe that the interests of the Stapled Security Holders will not be prejudiced as a result of such non-disclosure, for the following reasons:

- there is no misalignment between the remuneration of the Directors and the interest of Stapled Security Holders, given that their remuneration is not linked to the gross revenue of H-REIT or HBT and are paid out of the own assets of the Managers; and
- there is full and frank disclosure regarding the total amount of fees paid to H-REIT Manager and HBT Trustee-Manager.

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

CORPORATE GOVERNANCE

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

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

In 2016, each of the H-REIT Manager Board and the HBT Trustee-Manager Board established their respective NRC. Both NRC comprise three NEDs, two of whom, including the NRC chairman, are independent. Please refer to the 'Corporate Directory' section of the Annual Report for the composition of the NRC. The NRC's responsibilities are set out in its written terms of reference approved by the Boards. Pursuant to their terms of reference, NRC shall regularly review and recommend to the Boards, their assessment of the performance of KMPs. The NRC shall also take a holistic approach to the Managers' remuneration policy by considering the contribution and performance of KMPs in light of the performance of CDLHT and prevailing economic and industry conditions. The Managers believe that the establishment of the NRCs will help to ensure that the remuneration policies are more aligned with the interests of Stapled Security Holders.

[Principle 10: Accountability](#)

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

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

For the financial year under review, the CEO and the Chief Financial Officer ("**CFO**") provided assurance to the AC on the integrity of the quarterly unaudited financial statements of the H-REIT Group, the HBT Group and the Stapled Group and the Board in turn provided a negative assurance confirmation to the Stapled Security Holders in respect of the unaudited financial statements for the first, second and third quarter in accordance with the regulatory requirements.

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

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

CORPORATE GOVERNANCE

Principle 11: Risk Management and Internal Controls

The H-REIT Manager Board and the HBT Trustee-Manager Board recognise that they have overall responsibility to ensure proper financial reporting for the H-REIT Group, the HBT Group and the Stapled Group and effectiveness of H-REIT's and HBT's system of internal controls, including financial, operational, compliance and information technology controls and risk management policies and systems.

Risk Management

The H-REIT Manager Board and HBT Trustee-Manager Board had each established a RMC which comprises three members, the majority of whom were independent, including the chairman of the RMC and another member who was the chairman of the AC.

The objective of the RMCs was to assist the H-REIT Manager Board and HBT Trustee-Manager Board in the discharge of their duties to maintain an effective control environment that reflects both the established risk appetite and the business objectives. On 29 December 2015, the RMCs were dissolved and the function and responsibilities of the RMCs are now undertaken by the ARC.

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

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

For the financial year under review, the RMCs each conducted an assessment of its effectiveness based on a self-assessment checklist ("**RMC Self-Assessment Checklist**"). The RMC Self-Assessment Checklist covered *inter alia*, the responsibilities of each of the RMC under its terms of reference.

Based on the self-assessment, the RMCs have agreed that the RMCs have fulfilled their responsibilities and discharged their duties as set out in their respective terms of reference.

CORPORATE GOVERNANCE

To enable the RMCs to discharge their responsibilities satisfactorily, each RMC was authorised by their respective Board to (i) seek any information that it required from any officer or employee of the Managers, all of whom the RMCs have been granted full access to and who are directed to co-operate with; (ii) exercise full discretion to invite any other Director, Management, representatives from the Managers' or H-REIT and HBT's risk, compliance and/or internal audit functions (as may be applicable), representatives from the external auditors, specific risk owners or any officer or employee of the H-REIT Manager, the HBT Trustee-Manager and their subsidiaries or any external professional advisers to attend its meetings; and (iii) engaged any firm of accountants, lawyers or other professionals as the RMCs saw fit to provide independent counsel and advice or to assist in any review of matters within the RMC's terms of reference as the RMCs deem appropriate, at the Managers' or H-REIT and HBT's expense.

Guideline 11.3

(a) In relation to the major risks faced by the Company, including financial, operational, compliance, information technology and sustainability, please state the bases for the Board's view on the adequacy and effectiveness of the Company's internal controls and risk management systems.

Please refer to paragraph under the heading "Internal Controls".

(b) In respect of the past 12 months, has the Board received assurance from the CEO and the CFO that: (i) the financial records have been properly maintained and the financial statements give a true and fair view of the Company's operations and finances; and (ii) the Company's risk management and internal control systems are effective? If not, how does the Board assure itself of points (i) and (ii) above?

Please refer to the third paragraph under the heading "Internal Controls".

Internal Controls

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

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

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

Based on the internal controls framework established, the independent annual review and quarterly regulatory and compliance reviews conducted by KPMG Services Pte. Ltd. of H-REIT and HBT's governance and internal controls framework and the written assurance from the CEO and CFO, the H-REIT Manager Board and HBT Trustee-Manager Board confirm, with the assistance of the AC and the RMCs, that they have reviewed the adequacy and effectiveness of H-REIT and HBT's risk management system and internal controls that address the financial, operational, compliance and information technology controls and concur with the opinion of the ARC that the risk management system and system of internal controls in place as at 31 December 2015 are adequate and effective to address in all material respects the financial, operational, compliance and information technology risks within the current scope of H-REIT and HBT's business operations and that the financial records have been properly maintained and the financial statements give a true and fair view of the operations and finances of H-REIT and HBT.

CORPORATE GOVERNANCE

Principle 12: Audit Committee

Composition of the AC

On 29 December 2015, the AC was dissolved and the function and responsibilities of the AC are now undertaken by the ARC. The ARC of both the H-REIT Manager and the HBT Trustee-Manager comprises three NEDs, all of whom (including the chairman of the ARC) are independent.

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

Powers and Duties of the ARC

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

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

- to review significant financial reporting issues and judgements so as to ensure the integrity of the financial statements of H-REIT Group, HBT Group and CDLHT to be reported to the Stapled Security Holders, and any other formal announcements relating to the financial performance of the H-REIT Group, HBT Group and the Stapled Group.
- to review and report to the Board annually on the adequacy and effectiveness of the H-REIT's and HBT's internal controls, including financial, operational, compliance and information technology controls (which review may be carried out internally or with the assistance of competent third parties);
- to monitor in particular the identification, evaluation, management and monitoring of the risks related to financial reporting;
- to review reports from the Management, external auditors and internal auditors on the systems for internal controls, including financial, operational, compliance and information technology controls and review reports issued by any external professional adviser who may be engaged to carry out an independent review of H-REIT's and HBT's internal controls framework;
- to review activities of the internal auditors on factors such as independence, adequate resources and appropriate standing to perform an effective role;
- to review a summary of the internal audit reports and review Management's responses to the internal audit findings and recommendations;

CORPORATE GOVERNANCE

- to review and make recommendations to the Boards for approval by the Stapled Security Holders on the nomination for the appointment, re-appointment and removal of external auditors, and to approve the remuneration and terms of engagement of the external auditors;
- to review, on an annual basis, the scope and results of the external audit;
- to assess the independence of the external auditors on an annual basis;
- to ensure that the external auditors' independence and objectivity are not impaired by keeping the nature and extent of non-audit services provided by the external auditors under review (including the fees thereof);
- to review the whistle-blowing policy and the arrangements put in place by the Company for staff and any other persons to raise, in confidence, concerns about possible improprieties in matters of financial reporting or any other matters; and
- to monitor the procedures established to regulate Related Party Transactions and/or Interested Party Transactions, including reviewing any Related Party Transactions and/or Interested Party Transactions entered into from time to time and ensuring compliance with the relevant provisions of the Listing Manual of SGX-ST and the Property Funds Appendix.

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

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

In performing its duties, the H-REIT Manager AC and the HBT Trustee-Manager AC also took guidance from the Guidebook for Audit Committees in Singapore issued by the Audit Committee Guidance Committee in October 2008 ("**ACGC Guidebook**") as well as ACGC Guidebook (Second Edition) which was issued by MAS, ACRA and Singapore Exchange in August 2014. For the financial year under review, the AC conducted a self-assessment of its effectiveness in the discharge of its duties and responsibilities. The assessment was facilitated through the use of a self-assessment checklist ("**AC Self-Assessment Checklist**") adapted from the self-assessment checklist for audit committees set out in the ACGC Guidebook.

The AC Self-Assessment Checklist covered *inter alia*, the responsibilities of the AC under its terms of reference.

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

Pursuant to the establishment of the ARC effective from 29 December 2015, the ARC undertakes to continue the responsibilities of the AC moving forward.

CORPORATE GOVERNANCE

Guideline 12.6

(b) If the external auditors have supplied a substantial amount of non-audit services to the Company, please state the bases for the Audit Committee's view on the independence of the external auditors.

Please refer to the second paragraph under the heading "External Auditors".

(a) Please provide a breakdown of the fees paid in total to the external auditors for audit and non-audit services for the financial year.

Please refer to the third paragraph under the heading "External Auditors".

External Auditors

The AC had evaluated the performance of the external auditors for FY 2015. The AC also reviewed the responses furnished by KPMG LLP, based on the sample questionnaire set out in the "Guidance to Audit Committees on Evaluation of Quality of Work Performed by External Auditors" issued by ACRA and Singapore Exchange Limited on 15 July 2010.

Taking cognisance that the external auditors should be free from any business or other relationships with the H-REIT Group, HBT Group and the Stapled Group that could materially interfere with their ability to act with integrity and objectivity, the AC had, in 2015, undertaken a review of the independence of KPMG LLP ("**KPMG**") and gave careful consideration to the H-REIT Group's, HBT Group's and the Stapled Group's relationships with them during 2015. In determining the independence of KPMG, the AC reviewed all aspects of their relationships with them including the processes, policies and safeguards adopted by the H-REIT Group, the HBT Group and the Stapled Group and KPMG relating to audit independence. The AC also considered the nature of the provision of the non-audit services in 2015 and the corresponding fees and is of the opinion that such non-audit fees did not impair or threaten the audit independence. Based on the review, the AC is of the opinion that KPMG is, and is perceived to be, independent for the purpose of the H-REIT Group's, HBT Group's and the Stapled Group's statutory audit.

For details of the fees paid and/or payable by the H-REIT Group, HBT Group and the Stapled Group in respect of audit and non-audit services for FY 2015, please refer to note 20 of the Notes to the Financial Statements.

In reviewing the nomination of KPMG for re-appointment for the financial year ending 31 December 2016, the ARC had taken into consideration the Audit Quality Indicators Framework introduced by the Accounting and Corporate Regulatory Authority ("**ACRA**"). The ARC also considered the following in their review:

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

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

The audit partner, Mr Koh Wei Peng (Alex) would be up for rotation after the completion of the FY 2015 audit, after being in-charge of five consecutive audits for HBT and CDL Hospitality Trusts and a new audit partner would be coming on board for the FY 2016 audit.

On the basis of the above, the ARC has recommended to the Board the nomination of KPMG for re-appointment as external auditors of the H-REIT Group, HBT Group and the Stapled Group at the 2016 Annual General Meetings ("**2016 AGMs**").

CORPORATE GOVERNANCE

Whistle Blowing Policy

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

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

In order to facilitate and encourage the reporting of such matters, the whistleblowing policy, including the dedicated whistle blowing email address at acchairman@cdlht.com and postal correspondence channel are available on CDLHT's website.

Guideline 13.1

Does the Company have an internal audit function? If not, please explain why.

The H-REIT Manager outsourced the internal audit function for H-REIT's operations to Millennium & Copthorne International Limited, a related corporation. Please refer to the explanation under "Principle 13: Internal Audit".

Principle 13: Internal Audit

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

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

The ARC reviews the activities of the internal auditors on a quarterly basis and is satisfied that the IA function is independent of the activities which it audits; is adequately resourced; and has appropriate standing within the H-REIT Manager and HBT Trustee-Manager to perform its role and responsibilities effectively. In FY 2015, at the request of the ARC, the internal auditors performed an audit of the H-REIT Manager. The ARC met with the internal auditors separately without the presence of Management in January 2016.

Principle 14: Rights of Stapled Security Holders

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

All Stapled Security Holders are entitled to attend and vote at general meetings in person or by proxy. The rules including the voting procedures are set out in the notice of general meetings. In accordance with the H-REIT Trust Deed and HBT Trust Deed, Stapled Security Holders may appoint one or 2 proxies to attend and vote at general meetings in their absence. The proxy forms must be deposited with the H-REIT Manager and HBT Trustee-Manager not less than forty-eight (48) hours before the time set for the general meetings.

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Taking cognisance of the Companies Amendment Act ("**Amendment Act**") which came into effect on 3 January 2016 which *inter alia* provided for the Stapled Security Holders who are relevant intermediaries (as defined in the Amendment Act) to appoint more than two proxies to attend and vote at general meetings, the Boards have recommended that the relevant provisions within the H-REIT Trust Deed and the HBT Trust Deed respectively (collective, the "**Trust Deeds**") be amended at the 2016 AGMs to align the Trust Deeds with the amendments to the Companies Act and the Code on Collective Investment Schemes. Pursuant to the Amendment Act, relevant intermediaries will be able to appoint more than two proxies at the 2016 AGMs.

Guideline 15.4

(a) Does the Company regularly communicate with shareholders and attend to their questions? How often does the Company meet with institutional and retail investors?

Please refer to the explanation under "Principle 15: Communication with Stapled Security Holders."

(b) Is this done by a dedicated investor relations team (or equivalent)? If not, who performs this role? Yes, the H-REIT Manager and HBT Trustee-Manager have management who are responsible for providing investor relations support. **Please refer to the Management Team on page 39 of the Annual Report 2015.**

(c) How does the Company keep shareholders informed of corporate developments, apart from SGXNET announcements and the annual report?

Please refer to the explanation under "Principle 15: Communication with Stapled Security Holders."

Guideline 15.5

If the Company is not paying any dividends for the financial year, please explain why.

Please refer to the third paragraph under "Principle 15: Communication with Stapled Security Holders."

Principle 15: Communication with Stapled Security Holders

The H-REIT Manager and the HBT Trustee-Manager ensure that Stapled Security Holders are notified of all material information in an accurate and timely manner. The H-REIT Manager and the HBT Trustee-Manager notify their investors in advance of the date of release of the financial results of the H-REIT Group, the HBT Group and the Stapled Group via SGXNET. The quarterly and full year financial results of the H-REIT Group, the HBT Group and the Stapled Group are announced within the mandatory period. The financial statements of the H-REIT Group, the HBT Group and the Stapled Group and other presentation materials presented at general meetings, including material and price-sensitive information, are disseminated and publicly released via SGXNET on a timely basis. All Stapled Security Holders receive the annual report of CDLHT and the Notice of AGM of Stapled Security Holders, which notice is also advertised in the press and released via SGXNET. Stapled Security Holders and investors can access information on CDLHT at its website at www.cdlht.com which provides, inter alia, corporate announcements, press releases and the latest financial results as disclosed by CDLHT on SGXNET.

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

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

Principle 16: Conduct of General Meetings of Stapled Security Holders

At general meetings, Stapled Security Holders are given the opportunity to communicate their views and encouraged to ask the H-REIT Manager Board and the HBT Trustee-Manager Board and the Management questions regarding matters affecting H-REIT and HBT. The chairmen of the AC and RMC and the external auditors were present at the last AGMs, and the chairmen of the ARC and NRC would, together with the Lead ID, endeavour to be present at the 2016 AGMs to assist the H-REIT Manager Board and the HBT Trustee-Manager Board in addressing queries raised by the Stapled Security Holders.

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

CORPORATE GOVERNANCE

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

Pursuant to Rule 730A(2) of the Listing Manual of SGX, all resolutions proposed at the 2016 AGMs and at any adjournment thereof shall be put to vote by way of poll. In support of greater transparency and to allow for a more efficient voting system, the H-REIT Manager and the HBT Trustee-Manager have introduced electronic poll voting instead of voting by show of hands at the 2014 AGMs. With electronic poll voting, Stapled Security Holders present in person or represented by proxy at the meeting are entitled to vote on a "one-stapled security, one-vote" basis. The voting results of all votes cast in respect of each resolution will also be instantaneously displayed at the meeting and announced via SGXNET after the 2016 AGMs.

Corporate Values and Conduct of Business

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

Internal Code on Dealings in Securities

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

STATEMENT OF POLICIES AND PRACTICES OF HBT

Apart from the corporate governance practices disclosed above, the HBT Trustee-Manager has prepared a statement of policies and practices in relation to the management and governance of HBT (as described in section 87(1) of the Business Trusts Act, Chapter 31A of Singapore) in respect of FY 2015, which is set out on pages 92 to 97 in this Annual Report.