



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 “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.

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; and
- (v) The Code of Corporate Governance 2012 (the “Code”)
- (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 are committed to ensuring high 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 report sets out Far East H-REIT’s corporate governance framework and practices with specific reference to guidelines set out in the Code and where applicable, the Listing Manual and the Companies Act (Chapter 50 of Singapore) (“Companies Act”). Deviations from the Code are also explained. 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.

THE BOARD’S CONDUCT OF ITS AFFAIRS

Principle 1: An effective Board to lead and control the REIT Manager

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 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;



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- 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 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;
- Ensure that Management maintains sound measures relating to corporate governance, financial regulations, and internal policies;
- Consider sustainability issues such as environmental issues as part of its strategic formulation; and
- Recognise the perceptions of stakeholders that will affect Far East H-Trust's reputation.

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 are chaired by Independent Directors and reports to the Board.

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 can be found in the "Audit and Risk Committee" section of this Corporate Governance Report ("CG Report"). Information on the NC can be found in the "Board Membership" and "Board Performance" sections of the CG report. Information on the RC can be found in the "Remuneration Matters" sections of this CG Report.

The Board meets regularly, at least once every three months, and as warranted by 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. The number of meetings of the Board, ARC, NC and RC held during financial year 2017 ("FY 2017"), as well as the attendance of every Director at these meetings are set out in the table below:

	Board Meetings	Annual General Meeting	ARC Meetings	NC Meetings	RC Meetings
Number of meetings held in FY 2017	5	1	4	2	3
Board members					
Koh Boon Hwee	5/5	1/1	–	–	–
Wee Kheng Jin	5/5	1/1	–	2/2	3/3
Willie Cheng Jue Hiang	5/5	1/1	4/4	2/2	–
Kyle Lee Khai Fatt	5/5	1/1	4/4	2/2	3/3
Huang Cheng Eng	5/5	1/1	4/4	–	3/3
Chng Kiong Huat	5/5	1/1	–	–	–

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 objective 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



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- Distribution policy
- Announcements and press releases concerning Far East H-REIT
- Board memberships and other appointments
- Appointment and removal of the Company Secretary

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.

There is a comprehensive orientation programme for newly appointed directors, to enable them to have a good understanding of Far East H-Trust. The orientation includes management presentations on Far East H-Trust's business and strategic objectives and site visits to Far East H-Trust properties.

The Board ensures that there is a Continuing Professional Development programme for all Board members, to equip them with the appropriate skills and knowledge to perform their roles effectively on the Board and Board Committees.

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

Directors are encouraged to participate in industry conferences, seminars and training programmes which are relevant to their duties. Training programmes include those organised by the Singapore Institute of Directors, among others. 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.

BOARD COMPOSITION AND GUIDANCE

Principle 2: A strong and independent element on the REIT Manager Board

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

The Board presently comprises six directors, three of whom are Independent Directors and three of whom are Non-Independent Directors. The composition of the Board therefore complies with what is prescribed in Guideline 2.2 of the Code, which states that at least half of the Board members should be independent when the Chairman is not an independent director. This enables Management to benefit from their invaluable and objective perspective on issues that are brought before the Board.

None of the Independent Directors have any relationship with the REIT Manager, its related companies, its 10% shareholders or its officers and the 10% Stapled Securityholders of Far East H-Trust that could interfere, or be reasonably perceived to interfere, with the exercise of the Director's independent business judgement with a view to the best interests of Far East H-Trust.

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 Independent Directors has served on the Board beyond nine years since the date of his first appointment. The Board has considered and determined, taking into account the views of the NC, that Mr Willie Cheng, Mr Kyle Lee and Mr Huang Cheng Eng have demonstrated



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independence in character and judgement in the discharge of their responsibilities as directors in FY 2017, 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 the declarations by the independent directors of their independence, the Board is satisfied that Mr Willie Cheng, Mr Kyle Lee and Mr Huang Cheng Eng are considered independent.

The Board seeks to ensure that the Board and its Board Committees comprise directors who as a group provide an appropriate balance and diversity of skills, experience and knowledge of the industry and core competencies relevant to Far East H-Trust's business. The NC also takes this into consideration when identifying new directors.

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 finance, real estate, business, management and strategic planning. 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. The Board seeks to introduce greater diversity as it progressively reviews the composition of the Board and its Board Committees.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Principle 3: A clear division of responsibilities between Chairman of the Board and the executives responsible for managing the REIT's business

The positions of Chairman of the Board and 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 Koh Boon Hwee, while the CEO of the REIT Manager is Mr Gerald Lee. Mr Koh Boon Hwee 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.

There is a clear separation of the roles and responsibilities between the Chairman and the CEO of the REIT Manager. Mr Koh Boon Hwee 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 Non-Executive 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.

The Code recommends every company to appoint an independent director to be the lead independent director in certain circumstances, including where the Chairman is not an independent director. Mr Koh Boon Hwee is the Chairman of the Board of Far East Orchard Limited which owns 33% of the share capital of the REIT Manager. As such, the Board appointed Mr Willie Cheng as the Lead Independent Director. He is also the Chairman of the ARC.

Mr Cheng, as the Lead Independent Director, has held meetings with the Independent Directors without the presence of the Non-Independent Directors and Management as he deemed appropriate or necessary, and provided feedback to the Board after each meeting.



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BOARD MEMBERSHIP

Principle 4: Formal and transparent process for the appointment and re-appointment of Directors to the Board

The Board established its NC on 19 January 2016. The NC members are appointed by the Board from among its members, a majority of whom (including the Chairman of the NC) are independent directors. The members of the NC are Mr Kyle Lee (Chairman), Mr Willie Cheng and Mr Wee Kheng Jin.

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

- Nomination and re-nomination of the 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;
- Determining annually whether or not a director is independent;
- Deciding whether or not a director is able to and has been adequately carrying out his duties as a director;
- Review of board succession plans for directors;
- Development of a process for evaluation of the performance of the Board, its committees and directors;
- Review of training and professional developments programmes for the Board; and
- Appointment and re-appointment of directors.

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 provides 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 including areas such as business management, accounting, finance, property development, investment and property management. The NC believes that a director's eligibility for selection, appointment and re-appointment goes beyond his 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. The NC and the Board believe that putting a limit on the number of listed company board representations which a director may hold is arbitrary, given that time requirements for each varies, and thus should not be prescriptive.

A director with multiple directorships is expected to ensure that sufficient attention is given to the affairs of Far East H-REIT and the REIT Manager. The NC and the Board believe that each individual director is best placed to determine and ensure that he is able to devote sufficient time and attention to discharge his duties and responsibilities as a Director of the REIT Manager, bearing in mind his other commitments. Based on the Directors' attendance record at Board and Board Committee meetings (set out on page 61) 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 2017. 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 a list of the present and past directorships of each Director over the last three years are set out on pages 13-15. The Directors' Stapled Securityholdings in Far East H-Trust are set out on page 166.



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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, travel and hospitality, real estate, finance and legal matters;
- At least 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/her track record, age, experience and capabilities and such other relevant experience as may be determined by the Board.

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.

The search for candidates to be appointed as directors is conducted through contacts and recommendations. The NC will first interview the candidates and nominate the candidate deemed most suitable for appointment to the Board. Suitable candidates are then evaluated by the Chairman of the Board and Independent Directors so that recommendations made on proposed candidates are objective and well supported.

BOARD PERFORMANCE

Principle 5: Formal annual assessment of the effectiveness of the Board as a whole and its committees and the contribution by each Director to the effectiveness of the Board

The NC assesses and discusses the performance of the Board as a whole and its Board Committee on an annual basis. The NC has in place a process to evaluate the effectiveness of the Board and its Board committees and the contributions by each Director. The review allows each Director to individually express his 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 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.

The Directors are required to complete evaluation questionnaires for the Board and its 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. The questionnaires are on a no-name basis and the submissions are kept confidential by the Company Secretaries of the REIT Manager. From the responses, a consolidated report is prepared and presented to the NC. The NC reviews the responses and feedback, as well as the areas where the Board's performance and effectiveness could be enhanced. The recommendations for improvement are then submitted to the Board 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 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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ACCESS TO INFORMATION

Principle 6: Directors to be provided with complete, adequate and timely information prior to meetings and on an ongoing basis

As a general rule, Board and Committee meeting notices and papers are required to be sent to the Directors and the Committee members at least five business days before the meetings. However, papers containing price sensitive information may be tabled at the meetings themselves or discussed without any papers being distributed. All Board and Committee papers are kept and disseminated via an electronic board portal, which has proven to be a more effective, secure and sustainable form of communication.

Executive officers of Far East Organization ("FEO"), 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 FEO will not participate in any decision-making process involving transactions between Far East H-Trust and the Sponsor, comprising the FEO group of companies.

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 Far East H-REIT, or changes that have a bearing on Far East H-REIT. The Board and 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 and financial 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 or 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 meetings proceedings. They assist the Chairmen of the Board and Committees in ensuring that Board and Committee procedures are followed and that the REIT Manager's Constitution, Terms of Reference of the Board and 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 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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REMUNERATION MATTERS

Principle 7: A formal and transparent procedure for developing remuneration policies

Principle 8: Level and mix of remuneration

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

The RC has written terms of reference setting out the scope and authority in performing the function of the RC, which 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. 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 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.

The remuneration of key management personnel is structured to take into account 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. Some of the key performance indicators of the REIT Manager include Far East H-Trust's income available for distribution, investor relations, asset enhancement initiatives and corporate governance. This aligns the interests of key management personnel with that of Stapled Securityholders, as well as to promote 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 is in the form of short-term cash bonuses and long-term equity-based incentives. These performance indicators are appropriate and meaningful measures which assess Management's performance, while taking into account the risk policies of Far East H-Trust. The Remuneration Committee also considers long-term incentive schemes for the key management personnel, where units are awarded under a Performance Unit Plan based on pre-determined targets (e.g. total Stapled Securityholder return), set over a three-year period. These performance indicators of the annual variable bonus and long-term incentive are structured to link rewards to the performance of Far East H-Trust, rather than the performance of the controlling shareholder of the REIT Manager.

The Remuneration Committee 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 Remuneration Committee 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. Directors' fees comprise a base fee for serving as a director and as Chairman and member for board committees. For the financial year ended 31 December 2017, the Directors' fees are paid in cash. The remuneration framework remains unchanged from the previous financial year. Non-Executive Directors who hold Far East H-Trust Stapled Securities have been holding their Stapled Securities since their appointments.



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In determining the remuneration of its Directors and key management personnel, the REIT Manager benchmarks against the industry by engaging an independent remuneration consultant, Aon Hewitt. The REIT Manager also takes reference from market practices in the formulation and review of its remuneration policies.

Where necessary, the Board modifies the framework of remuneration to align the REIT Manager's compensation with the interests of the REIT's 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.

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 Remuneration Committee 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 Executive Directors and the key management personnel paid in prior years, in exceptional circumstances of misstatement of financial results or of misconduct resulting in financial loss.

Principle 9: Disclosure of remuneration

The exact remuneration payable to each individual Director for the financial ended 31 December 2017 is as follows: –

Name of Director	Fee
Koh Boon Hwee	S\$125,000
Wee Kheng Jin	S\$72,500
Willie Cheng Jue Hiang	S\$112,500
Kyle Lee Khai Fatt	S\$105,000
Huang Cheng Eng	S\$100,000
Chng Kiong Huat	S\$55,000

The exact remuneration paid to or payable to the CEO and remuneration to the top five key management personnel, in bands of S\$250,000, for the financial year ended 31 December 2017 is as follows: –

THE LEVEL AND MIX OF THE REMUNERATION OF THE CEO:

	Base / Fixed Salary (includes Employer CPF)	Variable or Performance related Income/ Bonuses	Benefits- In-Kind	Total	Contingent Award of Units ¹
Gerald Lee Hwee Keong	S\$472,340	S\$70,000	S\$92,133	S\$634,473	663,000 units in Far East Hospitality Trust pursuant to the Performance Unit Plan of the Manager.



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THE LEVEL MIX OF THE REMUNERATION OF EACH OF THE OTHER TOP FIVE KEY EXECUTIVES IN BANDS OF S\$250,000

Remuneration Band and Names of Top 5 Key Executives	Base / Fixed Salary (includes Employer CPF)	Variable or Performance related Income/Bonuses	Benefits-In-Kind	Total	Contingent Award of Units ¹
Above S\$250,000 to S\$500,000					
Regina Yap Siew Buay ²	91.3%	8.7%	0.0%	100.0%	212,000 units in Far East Hospitality Trust pursuant to the Performance Unit Plan of the Manager.
Below S\$250,000					
Irfan Tayabali ³	89.3%	10.6%	0.1%	100.0%	–
Elaine Chin Shu Peng	87.6%	10.1%	2.3%	100.0%	80,000 units in Far East Hospitality Trust pursuant to the Performance Unit Plan of the Manager.
Sandra Chia Sien Inn ⁴	99.4%	0.0%	0.6%	100.0%	–
Lee Pei Yee ⁵	93.7%	0.0%	6.3%	100.0%	–

- 1) Units awarded under the Manager's Performance Unit Plan (PUP) are subject to pre-determined performance targets set over a three-year period. 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. Remuneration of the employees, including awards from the PUP, is paid by the REIT Manager.
- 2) Ms Regina Yap Siew Buay joined the REIT Manager on 1 June 2017.
- 3) Mr Irfan Tayabali joined the REIT Manager on 22 May 2017.
- 4) Ms Sandra Chia Sien Inn resigned from the REIT Manager and her last day of service was 22 July 2017. Her base/fixed salary includes annual leave encashment.
- 5) Ms Lee Pei Yee resigned from the REIT Manager and her last day of service was 30 March 2017. Her base/fixed salary includes annual leave encashment.

It is a requirement under the Code of Corporate Governance to disclose the aggregate total remuneration paid to the top five key management personnel. However, the Board has reviewed, assessed and decided against such disclosure as it will not be in the best interests of the REIT Manager, Far East Hospitality Trust or its Stapled Securityholders due to the competitiveness for key talent in the REIT industry. The Board felt that such information is sensitive in nature and disclosing it could affect the stability of the management team, and is of the opinion that the interests of the Stapled Securityholders will be prejudiced as a result.

There is no employee with the REIT Manager who is an immediate family member of a Director or the CEO of the REIT Manager and whose remuneration exceeds S\$50,000 during the year.

ACCOUNTABILITY AND AUDIT

Principle 10: The Board should present a balanced and understandable assessment of the REIT's 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.



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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.

RISK MANAGEMENT AND INTERNAL CONTROLS

Principle 11: A sound system of risk management and internal controls to safeguard the interests of the Stapled Securityholders and the REIT's assets

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 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.

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 on a quarterly basis. The ARC reports to the Board on material findings and makes recommendation or seeks guidance from the Board in respect of any material risk issues.

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

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. 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).

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



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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;
- Advising and checking for the representatives' compliance with their regulatory obligations under the SFA, such as the maintenance of their relevant interest in securities;
- 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 to the REIT Manager, its directors and its representatives as part of the quarterly compliance review.

Conflicts of Interest

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 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 any of its associates have an interest; and
- It is also provided in the Far East H-REIT 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

Related Party and Interested Person Transactions

The REIT Manager's Internal Control System

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 review the internal audit reports at least twice a year to ascertain that the guidelines and procedures established to monitor IPT have been complied with. In addition, the REIT Trustee will also 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. If a member of the ARC has an interest in a transaction, he is to abstain from participating in the review and approval process in relation to that transaction.

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 Trustee for and on behalf of Far East H-REIT with an interested party (which would include relevant associates thereof), the Trustee is required to ensure that such transactions are conducted on normal commercial terms, are not prejudicial to the interests of 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 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 Trustee is to sign any contract with an interested party, the Trustee will review the contract to ensure that it complies with the requirements relating to IPTs 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 RPT” 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 FY 2017, 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	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
Rental income – Master Lease ⁽¹⁾	81,043	–
Rental income – REIT Commercial Premises ⁽²⁾	656	–
Rental income received/receivable from FEO Hospitality Asset Management Pte Ltd (the “REIT Manager”)	342	–
Management fees paid/payable to REIT Manager ⁽³⁾	11,175	–
Trustee’s fee paid/payable to the trustee	312	–
Shared service fees paid/payable to related corporations of the REIT Manager ⁽⁴⁾	1,171	–
Reimbursable expenses paid/payable to the REIT Manager ⁽⁵⁾	219	–
Reimbursable expenses paid/payable to related corporations of the REIT Manager	8	–
Technical support service fee paid/payable to related corporation of the REIT Manager ⁽⁶⁾	773	–
Leasing commission paid / payable to related corporations of the REIT Manager for REIT Commercial Premises ⁽⁷⁾	517	–



CORPORATE GOVERNANCE REPORT

Name of interested person	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
Reimbursable expenses received/receivable from related corporations of the REIT Manager ⁽⁸⁾	134	–
Interest received/receivable from a joint venture company ⁽⁹⁾	449	–

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

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

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

- Far East Organization Centre Pte. Ltd.
- Far East Management Pte. Ltd.
- Far East Property Sales Pte. Ltd.

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

As performance fee payable is based on a percentage of NPI, as NPI increases, distribution to Stapled Securityholders will increase. Accordingly, the directors are satisfied that such fee arrangement will provide necessary incentive to the REIT Manager to grow the NPI, while constantly looking for new opportunities to increase the NPI in the long term.

(4) 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.

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

(6) This relates to technical support service fee paid/payable to related corporations of the REIT Manager:

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

(7) This relates to leasing commission paid/payable to Far East Management (Private) Limited and other third party marketing agents.

(8) This relates to reimbursement of utilities and other miscellaneous expenses from related corporations of the REIT Manager.

(9) This relates to interest on shareholders' loan received/receivable from Fontaine Investment Pte Ltd.

The 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.



CORPORATE GOVERNANCE REPORT

The entry into and the fees and charges payable by Far East H-REIT under the Far East H-REIT Trust Deed, the Stapling Deed, the Shared Services Agreements, the Shared Electricity Services Agreements, the Licence Agreement and the leases set out in the section “Other Related Party Transactions” in the IPO Prospectus, to the extent that details of these have been specifically disclosed in the IPO Prospectus, which each constitutes an Interested Person Transaction, are deemed to have been specially approved by Stapled Securityholders upon purchase of the Stapled Securities 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.

Role of the ARC for IPT

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 to ensure compliance with the relevant provisions of the Listing Manual and the Property Funds Appendix.

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

Board’s Opinion on Internal Controls

The Board receives quarterly certification of assurance from the CEO and CFO, which assures that to the best of the CEO and CFO’s 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 certification of assurance also assures 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 effectively designed, are operating effectively in all material aspects, and adequate as at 31 December 2017. 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.

The Board recognises the responsibility for the governance of risk and 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-Trust’s risk management and internal control systems, including financial, operational, compliance and information technology controls on an annual basis.

Based on the internal control systems established and adhered to by Far East H-Trust, the assurance received from the CEO and CFO, the assurance received from the Hotel and Serviced Residence Operator, work performed by the internal and external auditors, and compliance manager, reviews conducted by Management and various Board Committees, the Board, with the concurrence of the ARC, is of the opinion that Far East H-Trust’s risk management and internal control systems have been adequately designed and are operating effectively in all material aspects to address the financial, operational, compliance and information technology risks faced by Far East H-Trust in its current business environment as at 31 December 2017.

The Board notes that the internal control systems established provides reasonable but 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.



CORPORATE GOVERNANCE REPORT

AUDIT AND RISK COMMITTEE

Principle 12: Establishment of ARC with written terms of reference

The ARC members are appointed by the Board from among its members. The ARC is comprised entirely of Independent Directors, 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 recent 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 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 is a former partner of Far East H-REIT's existing external auditing firm, Ernst & Young LLP ("EY").

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 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 REIT Manager may, in confidence, 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) Ensuring, at least annually, the adequacy and the effectiveness of the internal audit function;
- (xii) Meeting with internal and external auditors, without the presence of the Management, at least once annually; and
- (xiii) Reviewing the financial statements of Far East H-REIT.



CORPORATE GOVERNANCE REPORT

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 FEO, external consultants or advisers to attend its meetings. The internal and external auditors have unrestricted access to the ARC.

During the year under review, four ARC meetings were held. The ARC has met with the internal and external auditors, without the presence of the executive officers of the REIT Manager on two occasions and confirmed 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\$137,900, of which audit fees amounted to S\$67,000 and non-audit fees amounted to S\$70,900. The non-audit fees paid/payable to EY relate to general tax and GST compliance work. The statutory audit fee for Far East H-Trust is relatively low as 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 ARC, having considered the nature of the provision of the non-audit services, is of the view that even though the fees paid to the auditor for non-audit services exceed 50% of the total fees paid to EY, 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 2018, 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 exercise. The ARC is satisfied with the independence and objectivity 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.

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 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 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.



CORPORATE GOVERNANCE REPORT

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 2017:

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"> • There was appropriate use of third party valuers who have recognised professional qualification and experience; • 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 • Material judgemental assumptions used in the valuations were within reasonable parameters. <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>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, Singapore Financial Reporting Standards (International), for the annual periods starting 1 January 2018 and the effect to the financial statements of Far East H-Trust.

The financial statements of Far East H-REIT will continue to be prepared in accordance with the recommendations of Statement of Recommended Accounting Practice ("RAP") 7 Reporting Framework for Units Trusts issued by the Institute of Singapore Chartered Accountants, as the Code on Collective Investment Scheme requires authorised unit trusts to prepare their financial statement in the manner prescribed under RAP 7.

As for Far East H-BT which is currently dormant, the ARC does not expect the adoption of the above new financial reporting framework to have an impact on its financial statements for financial year ending 31 December 2018.



CORPORATE GOVERNANCE REPORT

INTERNAL AUDIT

Principle 13: Establishment of an internal audit function that is adequately resourced and independent of the activities it audits

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. 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 and effectiveness of the internal audit function.

STAPLED SECURITYHOLDERS' RIGHTS AND RESPONSIBILITIES

Principle 14: Fair and equitable treatment of all Stapled Securityholders, and the recognition, protection and facilitation of the exercise of their rights

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 5th Annual General Meeting held on 17 April 2017, 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.



CORPORATE GOVERNANCE REPORT

COMMUNICATION WITH STAPLED SECURITYHOLDERS

Principle 15: Regular, effective and fair communication with Stapled Securityholders

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 (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.

During the year under review, there was no inadvertent disclosure made to a select group of Stapled Securityholders.

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, and address their concerns through Far East H-Trust's corporate email: 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. Far East H-Trust also participated in various local and overseas conferences as part of its efforts to build interest in Far East H-Trust. Far East H-Trust 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.

Far East H-REIT's distribution policy is to distribute at least 90% of its taxable income. This distribution policy is stated in 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.



CORPORATE GOVERNANCE REPORT

CONDUCT OF STAPLED SECURITYHOLDERS' MEETINGS

Principle 16: Greater participation by Stapled Securityholders at General Meetings

Stapled Securityholders are informed of annual general meetings ("AGM") or extraordinary general meetings ("EGM") 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 is allowed to appoint up to two proxies to vote on his behalf at the meetings through proxy forms sent in advance.

All Directors, key management personnel of the REIT Manager and representatives from DBS Trustee Ltd 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 results are also made through SGXNET and on Far East H-Trust's website.

Minutes of general meeting, which include a record of the Stapled Securityholders' questions and answers, are taken and made available to Stapled Securityholders at their request.

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

ADDITIONAL DISCLOSURES ON FEES PAYABLE TO THE REIT MANAGER

Pursuant to the revised Code on CIS which came into effect on 1 January 2016, the methodology and justifications for each type of fees payable to the REIT Manager should be disclosed, where such fees are 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 112 to 114 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. The various fees earned by the REIT Manager and their rationale are further 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.

The Performance Fee, which is 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. 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.

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 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.