

CORPORATE GOVERNANCE

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 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 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 main board of Singapore Exchange Securities Trading Limited (the "SGX-ST").

The REIT Manager has been issued a Capital Market Services Licence for REIT 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) Appendix 6 of the Code on Collective Investment Schemes (the "CIS Code", and Appendix 6 of the CIS Code, the "Property Funds Appendix");
- (iii) the Listing Manual of SGX-ST (the "Listing Manual");
- (iv) the Business Trusts Act, Chapter 31A of Singapore; and
- (v) the Code of Corporate Governance 2012 (the "Code").

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 a 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 of Corporate Governance 2012. 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 holders of Far East H-REIT Units;
- 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
- recognize 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 committees, namely the Audit and Risk Committee, the Nominating Committee and the Remuneration Committee (collectively known as “Committees”). Each of the board committees has its own written terms of reference and reports to the Board.

The Audit and Risk Committee provides independent oversight of Management and serves to ensure that there are appropriate checks and balances. The Audit and Risk Committee also operates under delegated authority from the Board. The Board has delegated to the Audit and Risk Committee the responsibilities of monitoring and evaluating the effectiveness of internal controls, reviewing quality and reliability of information prepared for inclusion in financial reports, etc. Details of the Audit and Risk Committee’s terms of reference are listed on pages 62-63 of the Annual Report.

CORPORATE GOVERNANCE

The Board meets at least once every three months to review the portfolio performance, business outlook, movement in Stapled Securityholdings, deliberate growth opportunities of Far East H-REIT, and approve the quarterly financial announcements. The Board also meets as warranted by particular circumstances or as deemed appropriate by the Directors. The number of meetings of the Board, Audit and Risk Committee[#], Nominating Committee* and Remuneration Committee* held during FY2016, as well as the attendance of every Director at these meetings are as disclosed below:

Attendance at Board Meetings and General Meeting	23/2/16 BM	18/4/16 AGM	26/4/16 BM	28/7/16 BM	9/11/16 BM	9/11/16 BM	Total
Koh Boon Hwee	✓	✓	✓	✓	✓	✓	6
Willie Cheng Jue Hiang	✓	✓	✓	✓	✓	✓	6
Kyle Lee Khai Fatt	✓	✓	✓	✓	✓	✓	6
Huang Cheng Eng	✓	✓	✓	✓	✓	✓	6
Wee Kheng Jin	✓	✓	✓	✓	✓	✓	6
Chng Kiong Huat	✓	✓	✓	✓	✓	✓	6

Attendance at Audit and Risk Committee Meetings	23/2/16 ACM	26/4/16 ACM	28/7/16 ACM	8/11/16 ARCM	Total
Willie Cheng Jue Hiang	✓	✓	✓	✓	4
Kyle Lee Khai Fatt	✓	✓	✓	✓	4
Huang Cheng Eng	✓	✓	✓	✓	4
Wee Kheng Jin ^{##}	✓	✓	✓	✓	4

Attendance at Nominating Committee Meetings	22/2/16 NCM	7/4/16 NCM	Total
Kyle Lee Khai Fatt	✓	✓	2
Willie Cheng Jue Hiang	✓	✓	2
Wee Kheng Jin	✓	✓	2

Attendance at Remuneration Committee Meetings	17/2/16 RCM	7/4/16 RCM	Total
Huang Cheng Eng	✓	✓	2
Kyle Lee Khai Fatt	✓	✓	2
Wee Kheng Jin	✓	✓	2

Audit Committee had been renamed to Audit and Risk Committee ("ARC") with effect from 1 August 2016.

Mr Wee is not an ARC member. He has attended the ARC meetings by invitation.

* The Nominating and Remuneration Committees were established on 19 January 2016.

ACM – Audit Committee Meeting

ARCM – Audit and Risk Committee Meeting

NCM – Nominating Committee Meeting

RCM – Remuneration Committee Meeting

BM – Board Meeting

AGM – Annual General Meeting

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 is:

- 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
- Change of investment strategy after the expiry of three-year period from listing
- Recommendation to the REIT Trustee on the acquisition, divestment or enhancement of assets of Far East H-REIT in accordance with its stated investment strategy
- Unstapling of Far East H-Trust
- Recommendation to the REIT Trustee on the change in Property Manager for the Excluded Commercial Premises
- Recommendation to the REIT Trustee on the change in Master Lessee
- Change in the REIT Trustee
- Recommendation to the REIT Trustee on the change in percentage pegged to each Property's Gross Operating Revenue across the portfolio
- Recommendation to the REIT Trustee on the change in management fee comprising a Base Fee of 0.3% per annum of the value of Far East H-REIT Deposited Property and a Performance Fee of 4% of Net Property Income
- Recommendation to the REIT Trustee on the change of 90% of the REIT Manager's management fees in Stapled Securities instead of cash
- Capital structure
- Distribution Policy
- Significant change in accounting policies
- Material adjustments to financial statements
- Determination of the nature and extent of significant risks that the Board is willing to take in achieving the strategic objective of Far East H-REIT
- Announcements and press releases
- Board memberships and other appointments

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. In addition, approval sub-limits are also delegated to the Chief Executive Officer to facilitate operational efficiency.

All newly-appointed directors go through a comprehensive orientation programme 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.

CORPORATE GOVERNANCE

The Board is continually updated on developments affecting the Singapore hospitality industry. From time to time the REIT Manager organises talks and presentations by external professionals and consultants on topics relevant to the hospitality sector and the operations of the REIT Manager. Continuing Professional Development for Board members is flexible and they may attend appropriate courses, conferences and seminars conducted by professional bodies which among others include the Singapore Institute of Directors. The REIT Manager funds the training and development programmes for existing and new Board members.

With the formation of the Nominating Committee, the Continuing Professional Development programme for Board members will come under its purview.

BOARD COMPOSITION AND GUIDANCE

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

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 of Corporate Governance, 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.

The independence of the Directors is reviewed annually. Based on the Board's review, the following Directors are presently considered independent:

- Mr Willie Cheng
- Mr Huang Cheng Eng
- Mr Kyle Lee

The Board considers Mr Koh Boon Hwee, Mr Wee Kheng Jin and Mr Chng Kiong Huat to be non-independent. 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. Mr Wee is an Executive Director of Far East Organization ("FEO"), and holds directorships in various FEO companies. Mr Chng Kiong Huat was an Executive Director of FEO up till 1 November 2014.

The Board is satisfied that the Board and its 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. Management has benefited from their invaluable views and experiences.

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 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.

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.

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 requires that the Board appoints an Independent Director to be the Lead Independent Director where the Chairman is not an Independent Director. As Mr Koh Boon Hwee is a Non-Independent Director, the Board has appointed Mr Willie Cheng as the Lead Independent Director.

Where necessary, the Directors meet and discuss matters such as the Far East H-REIT financial performance, succession planning, leadership development and the remuneration of the key executives without the presence of Management.

BOARD MEMBERSHIP

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

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

The responsibilities of the Nominating Committee include:-

- 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;

CORPORATE GOVERNANCE

- 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 development programmes for the Board; and
- Appointment and re-appointment of directors.

The Nominating Committee 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 Nominating Committee believes that a director's eligibility for selection, appointment and re-appointment goes beyond his attendance at meetings. The Nominating Committee takes into consideration a director's competencies, commitment, contribution and performance. The Nominating Committee 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 Nominating Committee 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. The Nominating Committee 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 2016.

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 of this Annual Report. The Directors' Stippled Securityholdings in Far East H-Trust are set out on page 159.

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

- The Board should comprise directors with a broad range of commercial experience;
- 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 Nominating Committee will first interview the candidates. 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 Nominating Committee has in place a process to evaluate the effectiveness of the Board and its 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 committees, whilst identifying areas that need strengthening or improvement. The evaluation of the Board's performance include board composition, access to information, board process, risk management, strategy and planning, board accountability and engagement with CEO and Management. The Directors are required to complete the evaluation questionnaires for the Board and its committees and an Individual Director Assessment Questionnaire. 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 Nominating Committee. The Nominating Committee reviews the responses and feedback, and discusses changes that should be made 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 Nominating Committee, is satisfied that the Board has met its performance objectives for the year under review.

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.

Executive officers of 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, 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 Audit and Risk Committee meetings, Directors are updated on developments, challenges and changes in the operating environment, including changes

CORPORATE GOVERNANCE

in accounting standards, changes in Singapore property taxation as well as 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 Far East H-Trust's operating and financial performance.

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 also have access to independent professional advice where appropriate and whenever requested.

The Company Secretary attends to all corporate secretarial matters for the REIT Manager. She attends all Board and Committee meetings and prepares minutes of meetings proceedings. She assists 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. Under the direction of the Chairmen of the Board and Committees, the Company Secretary advises the Board on all governance matters. She also works with Management to ensure that Board and Committee papers are provided to each director at least five business days ahead of meetings. Her responsibilities also include assisting the REIT Manager in preparing the announcements to be uploaded on the SGXNET as required under the Listing Manual.

REMUNERATION MATTERS

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

The Board established its Remuneration Committee on 19 January 2016. 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 responsibilities of the Remuneration Committee include:

- 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.

Principle 8: Level and mix of remuneration

The remuneration of key management personnel is structured to take into account corporate and individual performance, to align 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. Key management personnel are paid a basic salary and an annual variable bonus, based on their achievement of key performance indicators. The Remuneration Committee also considers long-term incentive schemes for the key management personnel. These performance indicators of the annual variable bonus and long-term incentive are not linked to the performance of the controlling shareholder.

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.

The REIT Manager takes reference from market practices for its policies in determining the remuneration of its Directors and key executives. 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.

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 2016, the Directors' fees are paid in cash.

The bonuses and long term incentives paid to executive officers and employees of the REIT Manager are structured so as to link rewards to the performance of Far East H-Trust and the REIT Manager. Such performance-related bonus scheme was designed to align the interests of the Stapled Securityholders and the success of Far East H-Trust.

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 talents, 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.

Principle 9: Disclosure of remuneration

The exact remuneration payable to each individual Director for the financial ended 31 December 2016 is as follows:

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

CORPORATE GOVERNANCE

The exact remuneration paid to or accrued to the CEO and remuneration to the top five key executives, in bands of S\$250,000, for the financial year ended 31 December 2016 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\$73,500	S\$9,762	S\$555,602	700,000 units in Far East Hospitality Trust pursuant to the Performance Unit Plan of the Manager.

THE MIX OF THE REMUNERATION OF EACH OF THE OTHER TOP FIVE KEY EXECUTIVES

BELOW S\$250,000	Base/Fixed Salary (includes Employer CPF)	Variable or Performance related Income/Bonuses	Benefits- In-Kind	Total	Contingent Award of Units ¹
Sandra Chia Sien Inn	88.64%	11.19%	0.16%	100.0%	84,000 units in Far East Hospitality Trust pursuant to the Performance Unit Plan of the Manager.
Elaine Chin Shu Peng	89.25%	10.18%	0.57%	100.0%	84,000 units in Far East Hospitality Trust pursuant to the Performance Unit Plan of the Manager.
Lee Pei Yee	96.63%	0.00%	3.37%	100.0%	84,000 units in Far East Hospitality Trust pursuant to the Performance Unit Plan of the Manager.
Annie Khung Shyang Lee ²	99.35%	0.00%	0.65%	100.0%	
Denise Wong Xiao Fen	87.16%	9.63%	3.21%	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 Annie Khung Shyang Lee resigned from the REIT Manager and her last day of service was 09 August 2016.

The Board is of the view that the disclosure of the aggregate remuneration of the top five key management personnel will not be in the best interests of the Managers, 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.

Accordingly, the Board is of the opinion that such non-disclosure will not be prejudicial to the interest of the Stapled Securityholders.

There is no employee with the REIT Manager who is an immediate family member of a director or the CEO 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.

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 Audit and Risk Committee 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 Audit and Risk Committee also assesses the materiality of specific developments or risks that might have the impact on the security price of Far East H-Trust.

The extent of risk tolerance or 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 Audit and Risk Committee 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 respective managers. The nature and extent of risks are assessed regularly by Management and internal auditors and reports are submitted to the Audit and Risk Committee on a quarterly basis. The Audit and Risk Committee reports to the Board on material findings and makes recommendation or seeks guidance from the Board in respect of any material risk issues.

CORPORATE GOVERNANCE

Any findings on material non-compliance or weaknesses in internal controls by the internal auditors are reported to the Audit and Risk Committee. The recommendations to further improve the internal control system are reported to the Audit and Risk Committee 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 Audit and Risk Committee 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.

KPMG reports to the Audit and Risk Committee 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 nominees 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 nominee directors of the Sponsor, for example, in matters relating to:

- potential acquisitions of properties or property-related investments by Far East H-REIT in competition with the Sponsor; and
- competition for tenants between properties owned by Far East H-REIT and properties owned by the Sponsor.
- Save for resolutions relating to the removal of the REIT Manager, the REIT Manager and its associates (as defined in the Listing Manual) are prohibited from voting or being counted as part of a quorum in Stapled Securityholders' meetings convened to approve any matter in which the REIT Manager and/or any of its associates has an interest, and for so long as the REIT Manager is the manager of Far East H-REIT, the controlling shareholders of the REIT Manager and of any of its associates (as defined in the Listing Manual) are prohibited from voting or being counted as part of a quorum in any Stapled Securityholders' meetings convened to consider a matter in respect of which the relevant controlling shareholders of the REIT Manager and/or of any of its associates have an interest; and
- It is also provided in the 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 of the holders of Far East H-REIT units and/or which is in the 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.

Related Party Transactions

The REIT Manager's Internal Control System

The REIT Manager has established an internal control system to ensure that all Related Party Transactions ("RPT"):

- will be undertaken on normal commercial terms; and
- will not be prejudicial to the interests of Far East H-REIT and the holders of Far East H-REIT Units.

As a general rule, the REIT Manager must demonstrate to the Audit and Risk Committee 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 RPT 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.

CORPORATE GOVERNANCE

The REIT Manager has incorporated into its internal audit plan a review of all RPT entered into by Far East H-REIT. The Audit and Risk Committee will review the internal audit reports at least twice a year to ascertain that the guidelines and procedures established to monitor RPT have been complied with. In addition, the REIT Trustee will also have the right to review such audit reports to ascertain that the Property Funds Appendix has been complied with. The review will include the examination of the nature of the transaction and its supporting documents or such other data deemed necessary to the Audit and Risk Committee. If a member of the Audit and Risk Committee 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 undertaken:

- any transaction (either individually or as part of a series or if aggregated with other transactions involving the same Related 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 net tangible assets (based on the latest audited accounts) will be subject to review by the Audit and Risk Committee at regular intervals;
- any transaction (either individually or as part of a series or if aggregated with other transactions involving the same Related 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 (based on the latest audited accounts) will be subject to the review and prior approval of the Audit and Risk Committee. Such approval shall only be given if such transaction is on normal commercial terms and is consistent with similar types of transactions made by the REIT Trustee with third parties which are unrelated to the REIT Manager; and
- any transaction (either individually or as part of a series or if aggregated with other transactions involving the same Related Party during the same financial year) equal to or exceeding 5.0% of the value of Far East H-REIT's net tangible assets (based on the latest audited accounts) will be reviewed and approved prior to such transaction being entered into, on the basis described in the preceding paragraph, by the Audit and Risk Committee 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 holders of Far East H-REIT Units at a meeting duly convened.

Pursuant to the Listing Manual, transactions with a value below S\$100,000 are disregarded on the ground that they do not put Far East H-REIT at risk. Accordingly, such transactions are excluded from aggregation with other transactions involving the same Related Parties. Where matters concerning Far East H-REIT relate to transactions entered into or to be entered into by the REIT Trustee for and on behalf of Far East H-REIT with a Related Party of the REIT Manager (which would include relevant "associates" as defined under the Listing Manual) or Far East H-REIT, the REIT Trustee is required to consider the terms of such transactions to satisfy itself that such transactions are conducted on normal commercial terms, are not prejudicial to the interests of Far East H-REIT and the holders of Far East H-REIT Units, and in accordance with all applicable requirements of the Property Funds Appendix and/or the Listing Manual relating to the transaction in question. Further, the REIT Trustee has the ultimate discretion under the Far East H-REIT Trust Deed to decide whether or not to enter into a transaction involving a Related Party of the REIT Manager or Far East H-REIT. If the REIT Trustee is to sign any contract with a Related Party of the REIT Manager or Far East H-REIT, the REIT Trustee will review the contract to ensure that it complies with the relevant requirements relating to RPT (as may be amended from time to time) as well as such other guidelines as may from time to time be prescribed by the MAS and the SGX-ST.

Save for the RPT in connection with the Setting Up of Far East H-REIT and Future RPT (as disclosed 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.

The aggregate value of all Interested Person Transactions in accordance with the Listing Manual in FY2016, 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	85,897	–
Rental income – Excluded Commercial Premises ²	4,658	–
Rental income received/receivable from FEO Hospitality Asset Management Pte Ltd (the "REIT Manager")	–	–
Total Rental Income	90,555	–
Management fees paid/payable to REIT Manager ³	11,487	–
Trustee's fee paid/payable to the trustee	313	–
Shared service fees paid/payable to related corporation of the REIT Manager ⁴	1,164	–
Reimbursable expenses paid/payable to the REIT Manager ⁵	175	–
Reimbursable expenses paid/payable to related corporation of the REIT Manager	31	–
Technical support service fee paid/payable to related corporation of the REIT Manager ⁶	386	–
Leasing commission paid / payable for excluded commercial premises ⁷	490	–
Reimbursable expenses received/receivable from related coporation of the REIT Manager ⁸	163	–
Loan to a joint venture company ⁹	5,100	–
Interest received/receivable from a joint venture company ¹⁰	434	–
Share of cost for asset enhancement works at Orchard Parade Hotel ¹¹	9,000	–

CORPORATE GOVERNANCE

- 1 This relates to the rental received/receivable from the master lessees of the properties:
 - First Choice Properties Pte Ltd
 - Golden Development Private Limited
 - Far East Organization Centre Pte Ltd
 - OPH Riverside Pte Ltd
 - Golden Landmark Pte Ltd
 - Serene Land Pte Ltd
 - Transurban Properties Pte Ltd
 - Oxley Hill Properties Pte Ltd
 - Far East Orchard Limited
 - Riverland Pte Ltd
- 2 This relates to rental received/receivable from related corporations of the REIT Manager:
 - Far East Hospitality Holdings Pte. Ltd.
 - Far East Organization Centre Pte Ltd
 - Far East Hospitality Management (S) Pte Ltd
 - Far East Management Pte. Ltd.
 - Far East Orchard Limited
 - Kitchen Language Pte. Ltd.
 - Yeo Hiap Seng 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. Far East H-REIT paid to the master lessees monthly, a share of the costs of the applicable services provided to and attributed to the Excluded 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 engagement of valuer, website design/maintenance, annual report production, AGM expenses, air tickets, Banker's Guarantee commission, gifts to tenant and professional fee.
- 6 This relates to technical support service fee paid/payable to related corporations of the REIT Manager:
 - First Choice Properties Pte Ltd
 - OPH Riverside Pte Ltd
 - Far East Organization Centre Pte Ltd
 - Serene Land Pte Ltd
 - Golden Landmark Pte Ltd
 - Oxley Hill Properties Pte Ltd
 - Golden Development Private Limited
 - Riverland Pte Ltd
 - Far East Orchard Limited
- 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 shareholders' loan to Fointaine Investment Pte Ltd.
- 10 This relates to interest on shareholders' loan received/receivable from Fontaine Investment Pte Ltd.
- 11 Pursuant to an arrangement between Far East H-REIT, the REIT Manager and Far East Orchard Limited ("FEOL"), the parties agreed that Far East H-REIT and FEOL would each be responsible for carrying out and bearing its portion of the cost and expenses relating to the various aspects of the additional works over and above the FF&E works approved and set out in the Furniture, Fixtures & Equipment ("FF&E") plan agreed under the master lease agreement dated 27 August 2012 and entered into between Far East H-REIT, the REIT Manager and FEOL in relation to Orchard Parade Hotel. Upon completion of the additional works, all items of FF&E acquired or replaced as a result of such works will be the property of FEOL (notwithstanding whether the same were acquired or replaced by Far East H-REIT or FEOL), subject to the condition that the title to the aforesaid items of FF&E which are owned by FEOL and still in use shall, at the option of Far East H-REIT, be transferred to Far East H-REIT at the end or earlier termination of the master lease agreement for S\$1.00.

Save as disclosed above, there were no additional interested person transactions (excluding transactions of less than S\$100,000 each) entered into during the period under review.

The entry into and the fees and charges payable by Far East H-REIT under the Far East H-REIT Trust Deed, the Stapling Deed, the Property Management Agreement, 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 Audit and Risk Committee for RPT

The Audit and Risk Committee will monitor the procedures established to regulate RPT, including reviewing any RPT 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 Audit and Risk Committee 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

On a quarterly basis and for the purposes of the financial results reporting, the CEO signs a certificate of assurance to the Board that to the best of his knowledge, the accounting records have been properly maintained and the financial statements give a true and fair view of the properties' operations and finance, and that Far East H-Trust's risk management and internal control systems including financial, operational, compliance and information technology controls are adequate and effective. The Hotel and Serviced Residence Operator signs a certificate of assurance to the Board 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, the assurance received from the Hotel and Serviced Residence Operator and reports from the external and internal auditors and fine tuning of business processes to address audit recommendations highlighted, the Audit and Risk Committee and the Board are of the opinion that Far East H-Trust's risk management and internal control systems, addressing financial, operational, compliance and information technology controls were adequate and effective as at 31 December 2016.

The CEO has given assurance that:

- (a) the financial records have been properly maintained and the financial statements give a true and fair view of the Far East H-Trust's operations and finances; and
- (b) Far East H-Trust's risk management and internal control systems, addressing financial, operational, compliance and information technology were adequate.

CORPORATE GOVERNANCE

Far East H-Trust's internal control systems are designed to manage rather than to eliminate financial, operational, compliance and information technology risks to achieve business objectives. The Board accepts that the internal control systems contain inherent limitations. It does not preclude the occurrence of material errors, poor judgment in decision making, human errors, fraud and other irregularities. In the absence of evidence to the contrary, the internal control systems provide reasonable but not absolute assurance against material misstatement of loss.

AUDIT AND RISK COMMITTEE

Principle 12: Establishment of Audit and Risk Committee with written terms of reference

The Audit and Risk Committee members are appointed by the Board from among its members, the majority of whom (including the Chairman of the Audit and Risk Committee) shall be independent of the REIT Manager and any related corporation. The members of the Audit and Risk Committee are Mr Willie Cheng (Chairman), Mr Huang Cheng Eng and Mr Kyle Lee.

The three Audit and Risk Committee members:-

- (i) are Independent (as defined in the Code) of the REIT Manager or any of its related corporation;
- (ii) do not have a spouse, parent, brother, sister, child or adopted child, step-child who is or has been employed in the past three financial years by the REIT Manager or any of its related corporation as a senior executive officer;
- (iii) are not persons acting as nominees or representatives of any director or substantial shareholder of the REIT Manager or any of its related corporation; and
- (iv) are not persons having a relationship which, in the opinion of the Board would interfere in the exercise of independent judgement in carrying out the functions of the Audit and Risk Committee.

The Board is of the view that the members of the Audit and Risk Committee are appropriately qualified to discharge their responsibilities. Both Mr Willie Cheng and Mr Kyle Lee have extensive accounting and financial management expertise and experience. The Board considers Mr Huang Cheng Eng as having sufficient financial management knowledge to discharge his responsibilities as a member of the Audit and Risk Committee.

The Audit and Risk Committee's responsibilities include:

- (i) Monitoring the procedures established to regulate RPT (as defined herein), including ensuring compliance with the provisions of the Listing Manual relating to Interested Person Transactions and the provisions of the Property Funds Appendix relating to Interested Person Transactions (both such types of transactions constituting RPT);
- (ii) Reviewing transactions constituting RPT;
- (iii) Deliberating on resolutions relating to conflicts of interest involving Far East H-REIT;
- (iv) Monitoring the procedures in place to ensure compliance with applicable legislation, the Listing Manual and the Property Funds Appendix;

- (v) 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;
- (vi) Reviewing external audit reports to ensure that where deficiencies in internal controls have been identified, appropriate and prompt remedial action is taken by the management;
- (vii) Reviewing the adequacy of external and internal audits in respect of cost, scope and performance;
- (viii) 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;
- (ix) Reviewing, on an annual basis, the independence and objectivity of the external auditors and where the external auditors also provide a substantial volume of non-audit services to Far East H-REIT, keeping the nature and extent of such services under review, seeking to balance the maintenance of objectivity and value for money;
- (x) Reviewing internal audit reports at least twice a year to ascertain that the guidelines and procedures established to monitor RPT have been complied with;
- (xi) Ensuring that the internal audit function is independent from Management and reporting to the chairman of the Audit and Risk Committee who is adequately qualified to perform an effective role;
- (xii) Ensuring, at least annually, the adequacy and the effectiveness of the internal audit function;
- (xiii) Meeting with external and internal auditors, without the presence of the Management, at least once annually;
- (xiv) Reviewing the financial statements of Far East H-REIT;
- (xv) Reviewing the significant financial reporting issues and judgments so as to ensure the integrity of the financial statements of Far East H-REIT and any formal announcements relating to Far East H-REIT's financial performance;
- (xvi) Investigating any matters within the Audit and Risk Committee's terms of reference, whenever it deems necessary;
- (xvii) Reporting to the Board on material matters, findings and recommendations;
- (xviii) Supporting the Board to fulfil its oversight responsibilities in risk management;
- (xix) Examining the effectiveness of financial, operating and compliance controls and risk management policies and systems at least once annually;
- (xx) Promptly reviewing all relevant risk reports on Far East H-REIT; and
- (xxi) Reviewing and monitoring management's responsiveness to the findings.

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

During the year under review, 4 Audit and Risk Committee meetings were held. The Audit and Risk Committee has met with the external and internal auditors, without the presence of the executive officers of the REIT Manager at its meeting on 23 February 2016.

The Audit and Risk Committee has conducted a review of all non-audit services provided by Ernst & Young LLP ("EY"), the external auditor, during the year under review. The statutory audit fee for Far East H-Trust amounts to S\$66,000, which 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.

CORPORATE GOVERNANCE

The Audit and Risk Committee is of the view that even though the total amount of fees paid to the auditor for non-audit services exceeds 50%, the auditor's independence and objectivity are not impaired due to the low statutory audit fee. A breakdown of the fees paid in total for audit and non-audit services is set out below:

Breakdown of audit and non-audit services	Amount (S\$)
AUDIT SERVICES	
Statutory Audit	66,000
Sub-total	66,000
NON-AUDIT SERVICES	
Non-Investment/Acquisition-related Work	
- Review of Quarter GST return	24,000
- Review of Corporate Tax computation/return	46,900
- Corporate Tax advisory service	3,500
Sub-total	74,400
Total	140,400
% of total amount of non-audit fees paid to EY	53.0%

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. Establishing these policies reflects the REIT Manager's commitment to conduct its business within a framework that fosters the highest ethical standards.

During the year under review, the Audit and Risk Committee performed independent review of the financial statements of Far East H-Trust before recommending to the Board for approval on the release of the financial results. In the process, the Audit and Risk Committee reviewed the significant financial reporting issues and judgements so as to ensure adequate provisioning and disclosure, critical accounting policies and any changes made that would have a material impact on the financials.

The new auditor's report is effective for the audit of financial statements for periods ending on or after 15 December 2016. The new auditing standards require the external auditor to report on key audit matters (KAM) which it assessed to be of significance in its audit. Details of the results of the external auditor's assessment can be found in the Independent Auditor's Report. The Audit and Risk Committee's commentary on the external auditor's report on the KAM on the valuation of investment properties (page 84) is as follows:

"FEHT has 8 hotels and 4 serviced residences. The Code of Collective Investment Schemes requires a full valuation of each of these to be conducted by a valuer at least once a year in accordance with applicable codes of practice for such valuations. The Audit and Risk Committee has reviewed the appointment process for the valuers, the valuation models and key assumptions used in the current year's valuation with comparison to historical results. The Audit and Risk Committee also received a report from the external auditor on the independent assessment by its own specialist valuation team on the appropriateness of the valuation model, property data used, and comparability with their other data. Overall, the Audit and Risk Committee was satisfied that the fair value of the investment properties disclosed was appropriate."

The Audit and Risk Committee also reviewed and approved the internal auditor's and external auditor's plans to ensure that the plans sufficiently covered and reviewed Far East H-REIT's internal controls. Such controls include financial, operational and information technology controls. All audit findings and recommendations were tabled at Audit and Risk Committee meetings for discussion.

Management closely monitors changes to accounting standards and other issues which may potentially have an impact on the financial statements, and provides briefings and updates at Audit and Risk Committee meetings so as to enable the Audit and Risk Committee members to keep abreast of the changes in Statement of Recommended Accounting Practice ("RAP") 7 issued by the Institute of Singapore Chartered Accountants, which is applicable to Far East H-REIT. RAP 7 requires the accounting policies to generally comply with the principles relating to recognition and measurement under the Singapore Financial Reporting Standards.

None of the Audit and Risk Committee members is a formal partner of Far East H-REIT's existing auditing firm.

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 Audit and Risk Committee 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 Audit and Risk Committee, and conducting regular in-depth audits of high risk areas.

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 Audit and Risk Committee on any whistle blowing report or loss management incidents.

Far East Hospitality Trust and the REIT Manager had engaged BDO LLP as its internal auditor. The internal auditor planned the internal audit schedules in consultation with, but independent of the REIT Manager. The audit plan was submitted to the Audit and Risk Committee for approval prior to the commencement of the internal audit work.

The Audit and Risk Committee reviewed the internal audit report quarterly and monitored the implementation of the improvements required on internal control weaknesses identified.

The internal auditors performed their function in accordance with the standards of the Institute of Internal Auditors.

STAPLED SECURITYHOLDERS' RIGHTS AND RESPONSIBILITIES

Principle 14: Fair, Equitable, Protect and Facilitate the exercise of Stapled Securityholders' rights

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

CORPORATE GOVERNANCE

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 4th Annual General Meeting held on 18 April 2016, 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.

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 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 or 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 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 and the investor relations team have met with institutional investors from Singapore, Hong Kong 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 100% of Far East H-REIT's taxable income for the financial year ended 31 December 2016. This distribution policy is stated in the corporate website.

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. 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 and to communicate their views 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.

Each distinct issue is proposed as a separate resolution at the general meetings and the reasons and material implications are explained.

All Directors 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.

All the resolutions at the AGM and EGM are moved by voting by poll and an announcement of the results showing the number of votes cast for and against each resolution and the respective percentages is made through SGXNET and on Far East H-Trust's website.

Minutes of general meeting are 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 (2) working days of completion of the trade
- 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 (2) weeks before the announcement of Far East H-Trust's financial statements for each quarter of its financial year, and one (1) 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.