

**K-REIT**asía

Report to Unitholders 2008

# Driving *a Difference*



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# Driving *a Difference*

Focused on becoming a successful pan-Asian real estate investment trust, K-REIT Asia is **Driving a Difference** with its sterling office portfolio and experienced management team.

## Financial Highlights

<b>Actual</b> for the financial year ended 31 December	<b>2008</b> \$'000	2007 \$'000	Change %
Property income	<b>52,646</b>	40,069	31.4
Net property income	<b>39,659</b>	28,262	40.3
Investment and interest income <sup>1</sup>	<b>48,644</b>	2,632	Nm
Distributable income <sup>2</sup>	<b>58,182</b>	21,812	166.7
Distribution per unit (DPU) (cents)	<b>8.91</b>	8.82	1.0
Distribution yield (%) <sup>3</sup>	<b>12.7</b>	4.1	207.4
<b>Actual vs Forecast</b> for the financial year ended 31 December	<b>Actual</b> <b>2008</b> \$'000	Forecast 2008 \$'000	Change %
Property income	<b>52,646</b>	50,543	4.2
Net property income	<b>39,659</b>	35,949	10.3
Distributable income <sup>2</sup>	<b>58,182</b>	49,055	18.6
Distribution per unit (DPU) (cents)	<b>8.91</b>	7.53	18.3
Distribution yield (%) <sup>3</sup>	<b>12.7</b>	10.8	17.6
<b>Balance Sheet</b> as at 31 December	<b>2008</b> \$'000	2007 \$'000	Change %
Total assets	<b>2,092,322</b>	2,088,084	0.2
Total liabilities	<b>606,651</b>	1,154,317	-47.4
Unitholders' funds	<b>1,485,671</b>	933,767	59.1
Total borrowings	<b>581,085</b>	1,132,085	-48.7
Value of deposited properties	<b>2,102,000</b>	2,102,000	–
<b>Financial Ratios</b> as at 31 December	<b>2008</b>	2007	Change %
Aggregate leverage (%)	<b>27.6</b>	53.9	-48.7
EBITDA interest coverage ratio (times) <sup>4</sup>	<b>3.14</b>	2.46	27.6
All-in interest rate (%)	<b>3.19</b>	3.88	-17.8
Management expense ratio (%) <sup>5</sup>	<b>1.11</b>	1.27	-12.6
<b>Per Unit Data</b> as at 31 December	<b>2008</b>	2007	Change %
Net asset value per unit (\$)	<b>2.28</b>	3.78	-39.7
Adjusted net asset value per unit (\$) – excluding distributable income	<b>2.19</b>	3.69	-40.7
Year-end closing price (\$)	<b>0.70</b>	2.13	-67.1
Number of units in issue at year-end ('000)	<b>652,724</b>	247,184	164.1
Market capitalisation (\$'000) <sup>3</sup>	<b>456,907</b>	526,501	-13.2

<sup>1</sup> Investment and interest income comprises mainly income support, interest income and dividend income from associated company.

<sup>2</sup> The distributable income to Unitholders is based on 100% of the income available for distribution to Unitholders.

<sup>3</sup> Based on the closing unit price as at the last trading day for the financial year.

<sup>4</sup> EBITDA interest coverage: Ratio of profit before interest expense, tax, depreciation and amortisation to interest expense.

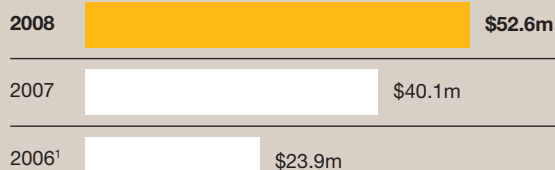
<sup>5</sup> The ratio is computed in accordance with the guidelines of Investment Management Association of Singapore. The expenses used in the computation relate to the trust expenses, excluding property expenses, amortisation expense and borrowing costs but including performance component of Manager's management fees.

## Financial Highlights

### Property Income \$52.6 million

# +31.4%

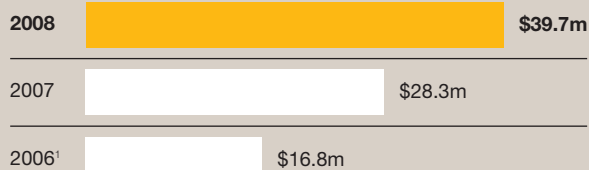
Rise due mainly to higher rental rates achieved for new and renewed leases



### Net Property Income \$39.7 million

# +40.3%

Increase as a result of higher rental income



### Distributable Income \$58.2 million

# +166.7%

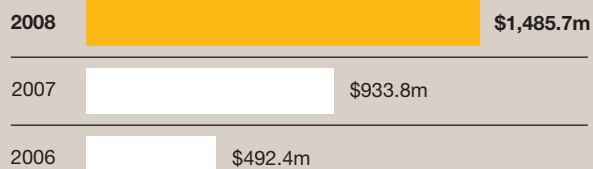
Increase of more than two times the previous year's level, due to higher net property income and the contribution from the one-third interest in One Raffles Quay



### Unitholders' Funds \$1,485.7 million

# +59.1%

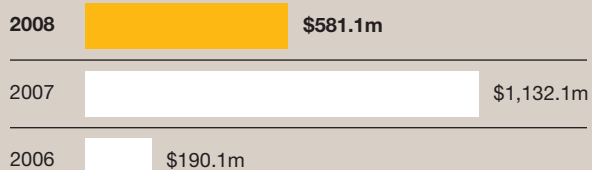
Increase due mainly to \$551.7 million raised from a rights issue



### Total Borrowings \$581.1 million

# -48.7%

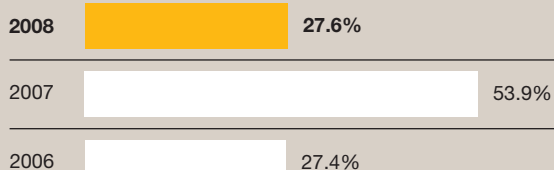
Decrease due to repayment of loan by utilising net proceeds from a rights issue



### Aggregate Leverage

# 27.6%

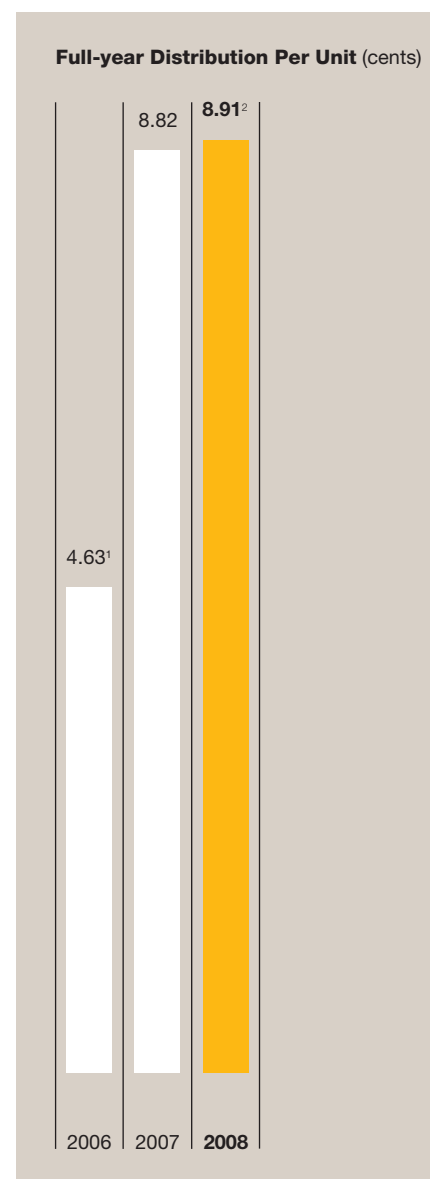
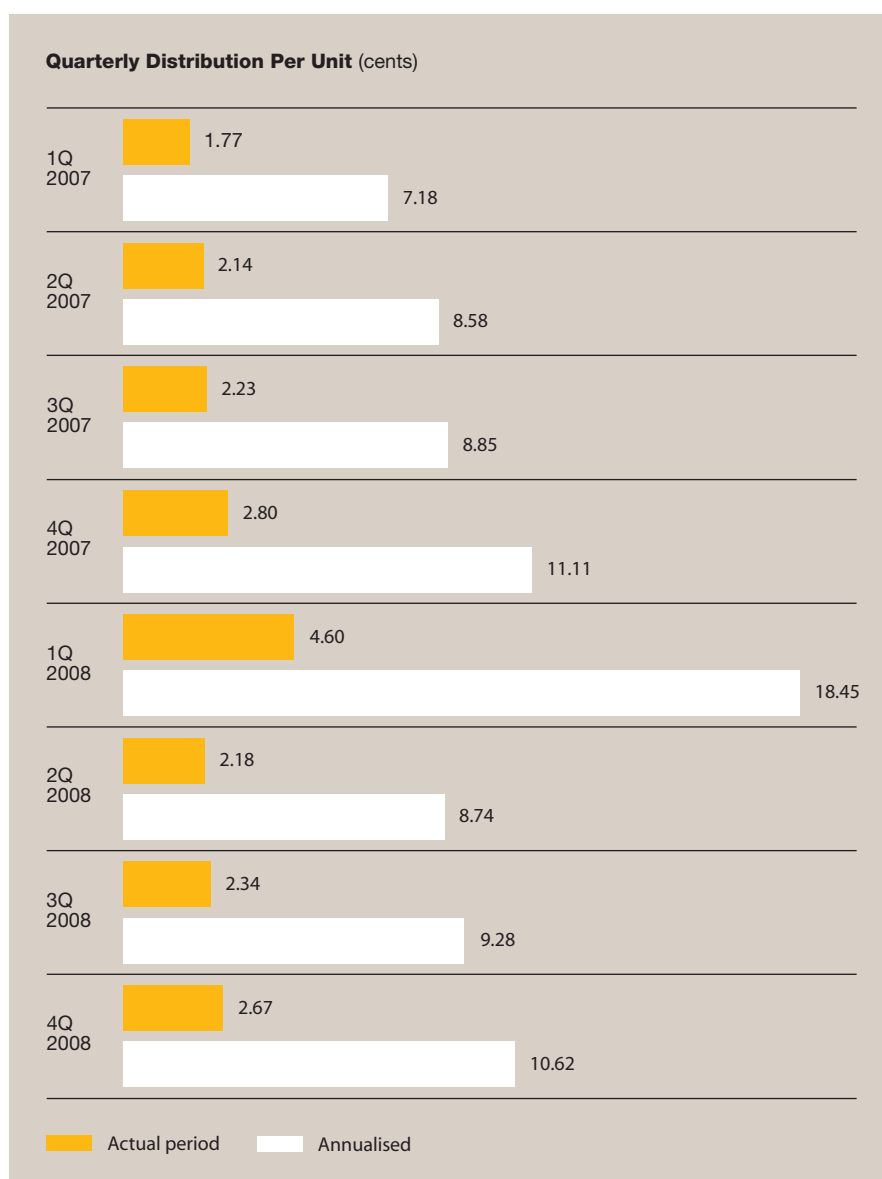
Improvement due to reduced borrowings



<sup>1</sup> Income and expenses related to the period from 26 April 2006 to 31 December 2006. K-REIT Asia had no income and expenses for the period prior to 26 April 2006.

# Quarterly Results

	Quarter 1		Quarter 2		Quarter 3		Quarter 4		Total Year
	\$'000	%	\$'000	%	\$'000	%	\$'000	%	\$'000
<b>Property Income</b>									
<b>2008</b>	<b>11,506</b>	<b>22</b>	<b>12,989</b>	<b>25</b>	<b>13,862</b>	<b>26</b>	<b>14,289</b>	<b>27</b>	<b>52,646</b>
2007	8,866	22	9,852	24	10,323	26	11,028	28	40,069
<b>Net Property Income</b>									
<b>2008</b>	<b>9,141</b>	<b>23</b>	<b>9,174</b>	<b>23</b>	<b>9,531</b>	<b>24</b>	<b>11,813</b>	<b>30</b>	<b>39,659</b>
2007	6,462	23	7,283	26	7,493	26	7,024	25	28,262
<b>Distributable Income</b>									
<b>2008</b>	<b>11,405</b>	<b>20</b>	<b>14,176</b>	<b>24</b>	<b>15,191</b>	<b>26</b>	<b>17,410</b>	<b>30</b>	<b>58,182</b>
2007	4,289	20	5,192	24	5,411	25	6,920	31	21,812



<sup>1</sup> K-REIT Asia was established on 28 November 2005 and the acquisition of the initial properties was completed on 26 April 2006. The distribution per unit for the period from 26 April 2006 to 31 December 2006 was 4.63 cents and the annualised distribution per unit was 6.76 cents.

<sup>2</sup> The annualised 2008 distribution per unit based on the weighted average number of units in issue was 11.36 cents.

## Corporate Profile



K-REIT Asia is a real estate investment trust sponsored by Keppel Land Limited and managed by K-REIT Asia Management Limited, with RBC Dexia Trust Services Singapore Limited as trustee.

On 26 April 2006, K-REIT Asia acquired its initial portfolio of four commercial office buildings from Keppel Land Limited for \$630.7 million.

The commercial REIT was listed on the Singapore Exchange Securities Trading Limited by way of an introduction on 28 April 2006.

On 10 December 2007, K-REIT Asia completed its maiden acquisition of a one-third interest in a Grade A office building, One Raffles Quay, bringing the number of assets in its portfolio to five. K-REIT Asia's portfolio size was \$2.1 billion as at 31 December 2008.

K-REIT Asia aims to become a successful pan-Asian real estate investment trust, valued by its Unitholders for delivering steady and sustainable returns.

## Significant Events

### **23 January 2008**

Distributable income for the year ended 31 December 2007 increased by 42.5% from the previous year

### **31 March 2008**

Received approval from Unitholders at the Extraordinary General Meeting for the proposed rights issue

### **21 April 2008**

Distributable income for the quarter ended 31 March 2008 increased by 165.9% from the corresponding period in 2007

### **5 May 2008**

Achieved successful allotment of rights units with rights issue fully subscribed

### **8 May 2008**

Commenced trading 396.9 million rights units

### **12 May 2008**

Achieved 28th ranking amongst a total of 704 Singapore publicly-listed companies in the Business Times Corporate Transparency Index

### **29 May 2008**

One Raffles Quay won the office category of the prestigious FIABCI Prix d'Excellence 2008 Awards

### **28 July 2008**

Distributable income for the half-year ended 30 June 2008 surpassed the first half of 2007 by 169.8%

### **20 October 2008**

Distributable income for the period from 1 January 2008 to 30 September 2008 increased by 173.8% from the corresponding period in 2007

### **Post-FY2008 – 19 January 2009**

Distributable income for the year ended 31 December 2008 increased by 166.7% from the previous year

Established a \$1 billion multi-currency medium-term note programme

## Chairman's Statement



In 2008, K-REIT Asia showed improved financial performance despite soft market conditions. Property income from its investment properties rose by 31.4% to \$52.6 million from \$40.1 million in the previous year.

### **Dear Unitholders,**

On behalf of the Board and the Manager, I am pleased to present the report of K-REIT Asia for the year ended 31 December 2008.

In 2008, Singapore's economy grew by 1.1%, compared with 7.8% in 2007. Global economic activities declined, especially in the last quarter, and the world's financial markets tumbled.

### **Weak Market Sentiments**

The global economic crisis has dampened market sentiments in Singapore's office sector. CB Richard Ellis reported that average rentals for prime and Grade A office properties have eased by 14.0% and 12.5% year-on-year to \$12.90 and \$15.00 per square foot (psf) per month, respectively, by end-2008. Average occupancy rate for core Central Business District office space has dipped to 95.4% from 97.6% at end-2007.



### **Improved Financial Performance**

Despite the soft market conditions, property income from the investment properties held by K-REIT Asia rose by 31.4% to \$52.6 million for the financial year ended 31 December 2008, compared with \$40.1 million in the previous year. This was due mainly to higher rental rates achieved for new and renewed leases.

Net property income grew by 40.3% to \$39.7 million in 2008 from \$28.3 million in 2007. Contributions from K-REIT Asia's one-third interest in One Raffles Quay Pte Ltd amounted to \$44.4 million, compared with the \$2.8 million contribution in 2007 as the interest was acquired in December 2007.

K-REIT Asia achieved a distributable income of \$58.2 million, up 166.7% from that for 2007. The full-year total distribution per unit (DPU) of 8.91 cents was 18.3% higher than forecast and 1.0% higher than the DPU of 8.82 cents for the previous financial

year. This slight difference is due to the successful rights issue of 396.9 million units completed on 8 May 2008.

K-REIT Asia's total DPU pay-out for the period from 1 January to 31 December 2008 totalled 13.04 cents.

### **Attractive Distribution Yield**

The global equity markets took a turn for the worse in the last months of 2008 as the economic outlook became grimmer. The S-REIT sector was not spared by the market tumult. As at end-2008, K-REIT Asia's unit price closed at \$0.70, down by 67.1% from the price at the beginning of the year. As a result, based on K-REIT Asia's DPU of 8.91 cents for 2008 and the closing unit price of \$0.70 on 31 December 2008, the distribution yield of 12.7% was higher than the average 12-month 7.7% gross dividend yield of the Straits Times Real Estate Index for the year.

### **Stable Property Portfolio Value**

Against the backdrop of market concerns over falling capital values and the possibility of further asset deflation, K-REIT Asia's portfolio retained its value of \$2.1 billion as at 31 December 2008, unchanged from the year before.

K-REIT Asia is sufficiently buffered against breaching the statutory leverage limit in the event of a decline in its property values. At present, the aggregate leverage will only exceed the regulatory 60.0% limit if its average portfolio valuation falls by more than 54.0%.

### **Quality Portfolio**

As at 31 December 2008, the committed occupancy rate of K-REIT Asia's portfolio was 99.0%, registering a slight decline from the 99.9% occupancy at the end of the previous year.

The weighted average lease terms in K-REIT Asia's portfolio and for its top

10 tenants are 5.6 years and 7.6 years, respectively. These above-average lease terms provide stable income for Unitholders in the current uncertain economic climate.

Despite a 26.4% increase from a year ago, K-REIT Asia's average gross portfolio rent of \$7.61 psf per month remains below the market average, providing some prospects of positive rental reversion. It is also worth highlighting that the income from the one-third interest in One Raffles Quay Pte Ltd is buffered against downside risks as income support is provided until end-2011.

### **Healthy Balance Sheet**

With the tight credit market, focus has shifted to the S-REIT sector's credit health and refinancing risks, with investors mindful of rising loan-to-value ratios should asset values fall.

In this respect, K-REIT Asia took prudent action to strengthen its financial position in 2008. Net proceeds of \$550.7 million from the rights issue completed in May 2008 were used to reduce borrowings. This reduction has lowered K-REIT Asia's aggregate leverage to 27.6% as at 31 December 2008, compared with 53.9% a year ago.

K-REIT Asia has no debt refinancing needs until 2011. A \$1 billion

multi-currency medium-term note programme has also been established to further provide K-REIT Asia with an additional source of funding and greater flexibility to manage capital requirements.

### **Awards and Accolades**

As a recognition of our continuous efforts to improve corporate transparency standards, K-REIT Asia was ranked 28th amongst a total of 704 Singapore publicly-listed companies in the Business Times Corporate Transparency Index as at 12 May 2008.

We are also pleased that One Raffles Quay has continued to garner numerous accolades for its top-notch quality. It was the winner of the office category of the prestigious FIABCI Prix d'Excellence 2008 Awards. It also won the Design and Engineering Safety Excellence Award by Singapore's Building and Construction Authority, and was an Honorable Nominee for Best Tall Building Award by the Council on Tall Buildings and Urban Habitat in 2008.

### **Challenging Times Ahead**

With the escalation of the global economic crisis, governments all over the world have taken various actions in an attempt to limit the fall-out. However, as recovery depends on global factors and improved market

**Given K-REIT Asia's strong sponsor and healthy financial position, the economic downturn presents opportunities for selective asset acquisitions. The Manager is also presently engaged in asset enhancement to improve operational efficiency and potentially optimise the net lettable area of K-REIT Asia's portfolio.**

sentiments, it is not certain when Singapore's economy will turn around. The Ministry of Trade and Industry has forecast that the domestic economy will contract by between 2.0% and 5.0% in 2009.

The take-up for new office space in 2008 stood at 0.2 million square feet, the lowest in five years. Given the weaker prospects, office demand will continue to be under pressure. Fortunately, the Singapore government has initiated measures in October 2008 to reduce potential supply. These measures include the suspension of sales of confirmed land sites and the lifting of a ban on the conversion of office buildings in the Central Business District to other uses. In addition, some developers may defer construction of planned office buildings, also potentially reducing new office supply.

In its Budget unveiled in January 2009, the government announced that employers will receive a cash grant for each employee on their payrolls in 2009 under a new Jobs Credit Scheme. This move to reduce employers' wage costs and save jobs will help to maintain demand for office space.

Although the outlook for 2009 is challenging, K-REIT Asia's portfolio of quality offices will be in a stronger position than other office buildings as

a "flight to quality" most often takes place during property downturns.

Given K-REIT Asia's strong sponsor and healthy financial position, the economic downturn presents opportunities for selective asset acquisitions. The Manager is also presently engaged in asset enhancement to improve operational efficiency and potentially optimise the net lettable area of K-REIT Asia's portfolio.

Notwithstanding the difficult macroeconomic conditions and barring unforeseen circumstances, we expect to maintain K-REIT Asia's income stream in 2009.

#### **Acknowledgements**

Finally, I would like to thank my fellow Directors, Unitholders, business partners, tenants and employees for their hard work, loyalty and tremendous support for the past year. Whilst the year ahead may seem daunting, I am confident that we can make a difference with your continued contributions and dedication.

Yours sincerely,



**Tsui Kai Chong**

Chairman

11 February 2009

# Driving *a Difference*

## By Enhancing Portfolio

K-REIT Asia continues its drive to add value to its portfolio of prime office buildings, to be the leading office REIT in Singapore.



## By Strengthening Focus

With the wealth of experience of its management team, K-REIT Asia will capture opportunities for selective asset acquisition for further growth.



# Enhancing Portfolio

*K-REIT Asia will improve operational efficiency of its assets and optimise the net lettable area of its portfolio.*

## **Risk Diversification**

K-REIT Asia achieves risk diversification by riding on different market cycles.



## Asset Management

Stability for K-REIT Asia's buildings is maintained with a diverse tenant mix and by optimising its asset and lease management.

# Strengthening Focus

*K-REIT Asia will deliver steady and sustainable returns through consistent execution of its growth strategies.*

## Value Creation

K-REIT Asia seeks value creation through asset enhancement initiatives.

K-REIT Asia



## Acquisition Opportunities

The Manager of K-REIT Asia will look out for opportunities in Asia to expand its quality portfolio.



BUGIS JUNCTION TOWERS

**K-REIT**asia

## Strategic Direction

Strategic Direction	Strategy in Action
<p><b>Maximise Performance</b></p> <ul style="list-style-type: none"> <li>• Increase net property income</li> <li>• Build sustainable earnings</li> </ul>	<ul style="list-style-type: none"> <li>• Improving building performance and efficiencies</li> <li>• Continuing proactive asset management</li> <li>• Providing flexible leasing options to existing and prospective tenants</li> <li>• Building on a balanced tenancy profile</li> <li>• Enhancing relationships to maintain high tenancy retention</li> <li>• Implementing prudent lease-term strategies to address forecast market conditions</li> <li>• Increasing other non-rental income</li> </ul>
<p><b>Enhance Assets</b></p> <ul style="list-style-type: none"> <li>• Improve existing property value</li> </ul>	<ul style="list-style-type: none"> <li>• Strengthening professional property management expertise and capabilities</li> <li>• Emphasising safety and security measures</li> <li>• Leveraging technology to improve operations</li> <li>• Converting existing space to potential lettable area</li> <li>• Improving quality of interior fittings and finishings</li> <li>• Promoting quality brand awareness</li> <li>• Implementing green initiatives as commitment to the environment and improving building performance</li> </ul>
<p><b>Acquire Quality Assets</b></p> <ul style="list-style-type: none"> <li>• Increase assets under management</li> </ul>	<ul style="list-style-type: none"> <li>• Increasing market intelligence</li> <li>• Pursuing business development actively</li> <li>• Leveraging competencies and experience in regional office markets</li> <li>• Analysing feasibility of specific single asset and multiple asset acquisitions</li> <li>• Reviewing other real estate-related asset acquisitions</li> <li>• Progressing the establishment of longer-term pipeline opportunities</li> </ul>
<p><b>Achieve Capital Efficiency</b></p> <ul style="list-style-type: none"> <li>• Optimise capital structure</li> </ul>	<ul style="list-style-type: none"> <li>• Pursuing balance between debt and equity</li> <li>• Reducing aggregate leverage to provide debt headroom to fund new acquisitions</li> <li>• Limiting interest cost exposure by capping long-term rates</li> <li>• Utilising competitive revolving credit facility to meet short-term working capital needs</li> </ul>
<p><b>Build Efficiencies and Nurture Talent</b></p> <ul style="list-style-type: none"> <li>• Grow competencies to drive growth</li> </ul>	<ul style="list-style-type: none"> <li>• Expanding human capital within the Manager</li> <li>• Training and developing competency of staff</li> <li>• Procuring technology to improve operations</li> <li>• Procuring systems to provide real-time data for accurate and swifter management decision-making</li> </ul>

## Investment Strategy

The principal investment strategy of K-REIT Asia is to generate steady and sustainable returns for its Unitholders by owning and investing in a portfolio of quality income-producing commercial real estate and real estate-related assets.

Although K-REIT Asia's current portfolio of assets is located in Singapore, its pan-Asian mandate enables it to invest in commercial properties in other growing Asian regions. The Manager focuses on quality assets located in major regional metropolitan centres in Asia and seeks third-party acquisitions that offer good potential for stable income growth and asset appreciation in the medium to long term.

The Manager adheres to stringent criteria for evaluating potential acquisitions. This involves a thorough review of exposures, risks and returns, and overall value-add to K-REIT Asia's existing portfolio and future growth expectations. Given K-REIT Asia's strong sponsor and healthy financial position, the economic downturn presents opportunities for selective asset acquisitions.

In the long run, many international companies continue to view Asia as an engine of growth and are confident of Singapore's pivotal role as a key business hub. As such, the Manager believes that the need for quality office space will continue to grow.

## Proactive Asset and Lease Management

Through proactive asset and lease management, the Manager continued to achieve a high committed occupancy rate of 99.0% for K-REIT Asia's portfolio as at end-2008 while raising gross rental rates steadily. However, the worsening global economic crisis has undoubtedly cast a cloud over Singapore's office sector. It has been reported that some companies intend to hold back on expansion plans and forward leasing



Through execution of its growth strategies, K-REIT Asia delivers sustainable returns to Unitholders.

commitments. Therefore, it is expected that demand for office space is likely to slow down in 2009.

Despite the sombre outlook, there are mitigating factors in K-REIT Asia's favour. Its major tenants in the financial services sector have signed long-term leases of between 5 to 15 years, with the weighted average lease term to expiry of its portfolio at 5.6 years as at 31 December 2008.

The Manager will continue to leverage K-REIT Asia's organic growth potential. Its average portfolio rent is well below market rents, even considering present adverse conditions. Income from its one-third interest in One Raffles Quay Pte Ltd is also buffered against downside risks with income support lasting until end-2011.

The Manager will continue to take a proactive approach towards marketing activities and build strong relationships with tenants. Given the uncertain times ahead, the Manager will place emphasis on tenant retention and seek to improve operational and cost efficiencies.

As a staunch supporter of environmental sustainability, the Manager aims to instill more green

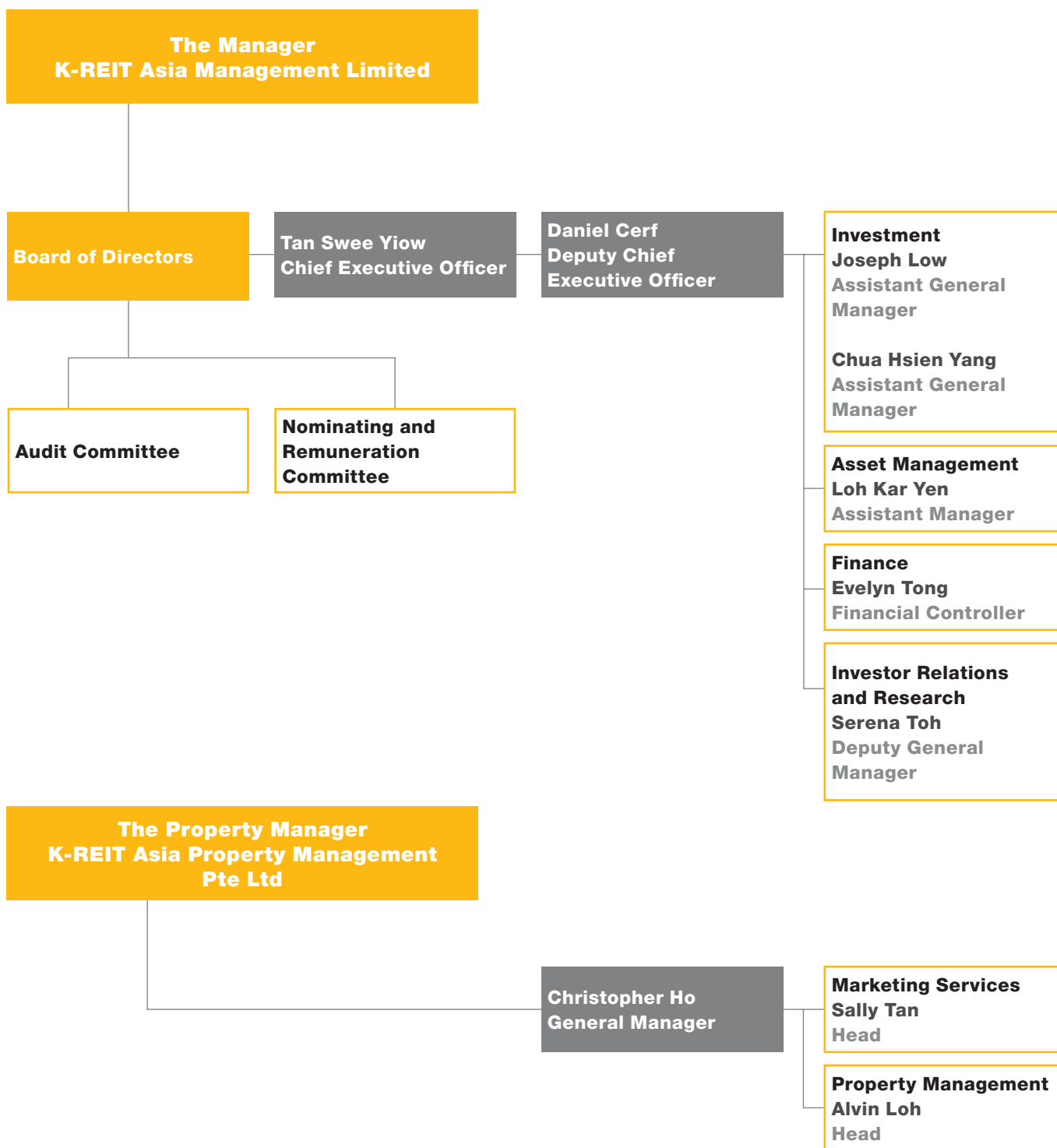
practices and initiatives for K-REIT Asia's buildings to minimise the impact of commercial real estate on the environment.

## Capital Management

For the financial year ended 31 December 2008, K-REIT Asia's outstanding borrowings totalled \$581.1 million, or 27.6% of the value of its total assets – well within the 60.0% borrowing limit set out in the Property Fund Guidelines. This was an improvement from the 53.9% aggregate leverage ratio as at 31 December 2007. Weighted average funding cost for 2008 was 3.19% per annum, with an interest service coverage ratio of 3.1 times. The improvement in K-REIT Asia's aggregate leverage position was due to the reduction of debt, utilising the net proceeds of \$550.7 million raised from the successful rights issue completed in May 2008. As a result, K-REIT Asia has no debt refinancing needs until 2011.

The Manager will continue to seek secure diversified funding sources. A \$1 billion multi-currency medium-term note programme was established in January 2009 to further provide K-REIT Asia with greater flexibility to manage capital requirements.

# Organisation Structure



## Board of Directors



**Professor Tsui Kai Chong, 53**

### **Chairman and Independent Non-Executive Director**

Professor Tsui has been the Chairman of the Board of the Manager since 28 November 2005. He has been a Director of Keppel Land Limited since 2001. He is Professor of Finance and Provost of SIM University. He was the founding Dean of the School of Business, Singapore Management University (SMU). He was also the Vice Provost of Undergraduate and Graduate Education. Prior to his being Dean, he was Acting Director of Communications and Information Technology at SMU. He was previously Deputy Director of the Graduate School of Business, National University of Singapore. There, he was Director of the MBA, MBA/LLM, Graduate Diploma and MSc Applied Finance programmes.

He is a non-executive Director of Fullerton Fund Management Company Ltd and serves on the editorial board of the *Financial Analysts Journal*. He is also a member of the Board of Governors, The Intellectual Property Academy, Singapore.

Professor Tsui received his Ph.D in Finance from New York University in 1988 and his Chartered Financial Analyst qualification in 1993.



**Mr Kevin Wong Kingcheung, 53**

### **Deputy Chairman and Non-Executive Director**

Mr Wong has been the Deputy Chairman and non-executive Director of the Manager since 28 November 2005. He is concurrently the Group Chief Executive Officer of Keppel Land Limited. He is Vice-Chairman and Director of Evergro Properties Limited. He is also a Director of Prudential Assurance Company Singapore (Private) Limited.

Prior to joining Keppel Land Limited, Mr Wong had diverse experience in the real estate industry in the UK, USA and Singapore. Mr Wong holds a Bachelor Degree in Civil Engineering with First Class Honours from Imperial College, University of London, and a Master degree from the Massachusetts Institute of Technology, USA.

## Board of Directors



**Mr Tan Swee Yiow, 48**

### **Chief Executive Officer and Director**

Mr Tan has been the Chief Executive Officer and a Director of the Manager since 24 November 2005. He joined the Keppel Land Group in 1990 and is concurrently the Chief Executive Officer (Singapore Commercial) overseeing the Group's commercial investment and development operations in Singapore.

Prior to joining the Keppel Land Group, Mr Tan was with a banking group, advising on property valuation, taxation and investment.

Mr Tan holds a Bachelor of Science Degree (First Class Honours) in Estate Management from the National University of Singapore and a Master of Business Administration in Accountancy from the Nanyang Technological University.



**Mrs Lee Ai Ming, 54**

### **Independent Non-Executive Director**

Mrs Lee has been an independent non-executive Director of the Manager since 28 November 2005. She has been an independent Director of Keppel Land Limited since November 2002 and currently serves on the Audit and Safety committees. She is currently the Deputy Managing Partner of the law firm of Rodyk & Davidson. She has practised law for more than 20 years in the areas of commercial litigation, real estate and intellectual property. Mrs Lee is also an independent Director, Chairperson of the Nominating committee and a member of the Audit committee of HTL Int'l Holdings Limited.

Mrs Lee serves on various other forums, including as Executive committee member of the Singapore Law Society and the Federation Internationale des Conseils en Propriété Industrielle; Chairperson, Asian Patent Attorney's Association – Singapore Group; and Vice-Chairperson of the Treaty Analysis Committee of the International Trade Marks Association.

Mrs Lee holds a Bachelor of Laws (Honours) Degree from the University of Singapore, and is an Advocate & Solicitor of the Supreme Court of Singapore.



**Mr Lim Poh Chuan, 62**

**Independent Non-Executive Director**

Mr Lim has been an independent non-executive Director of the Manager since 3 February 2005. He started his banking career with the Singapore-based United Overseas Bank Group (UOB Group). The Financial Services Division formed by him assisted key Directors in the formulation of group policies and setting up new corporations providing ancillary services such as merchant banking, nominee and custodian services. The department also oversaw investment activities of the UOB Group.

Between 1985 to 1991 Mr Lim was a Director and shareholder of Singapore stockbroker JM Sassoon & Co. Pte Ltd (Sassoons). Since 1993 Mr Lim has been in close association with Income Partners Asset Management of Hong Kong (IP) and is a member on the boards of directors of IP's Asian Credit Hedge Fund, Asian CRC Hedge Fund, Asian Special Finance Hedge Fund, and Global Credit Hedge Fund.

Mr Lim graduated with a Bachelor Degree in Economics from the University of Singapore.



**Dr Chin Wei-Li, Audrey Marie, 51**

**Independent Non-Executive Director**

Dr Chin has been an independent non-executive Director of the Manager since 3 February 2005. She is currently also an independent Director, Chairman of the Risk committee, and member of the Audit and Remuneration and Nominating committees of Singapore Petroleum Company Ltd. She also serves as an independent Director on NTUC Income Insurance Co-operative Singapore, where she is a member of the Investment and Risk committees. Concurrently, Dr Chin is Chairman of Vietnam Investing Associates – Financials (S) Pte Ltd.

Dr Chin was the Head of Investment Services at Fortis Private Banking Singapore Ltd (formerly known as MeesPierson Asia Limited) the Private Bank of Fortis. Prior to joining MeesPierson, she was an Asset Allocation Strategies Partner at Pacific Asset Management (S) Pte Ltd, a licensed boutique fund manager in Singapore. She was also an executive Director of Rossignol Private Limited, an investment adviser providing consultancy services to institutional fund managers.

Between 1996 and 1999, Dr Chin was Division Head, Asset Allocation in the Economics and Strategy Department of the Government of Singapore Investment Corporation (GIC). She began her career at GIC in 1989.

Dr Chin graduated from Manchester University with a Bachelor of Laws (Honours), Oxford University with a Masters of Science (Research Methods and Public Policy) and the Rand Graduate School with a Ph.D in Public Policy.

# Present and Past Directorships

## Directors and Senior Management

### Directors

Present and past principal directorships held by the Directors in the last five years are as follows:

#### **Professor Tsui Kai Chong**

##### **Present Directorships**

Fullerton Fund Management Company Ltd  
Keppel Land Limited

##### **Past Directorships**

Keppel Capital Holdings Ltd  
Keppel TatLee Bank Ltd

#### **Mr Kevin Wong Kingcheung**

##### **Present Directorships**

Keppel Land Limited and its various subsidiaries and associated companies  
Evergro Properties Ltd  
Prudential Assurance Company Singapore (Pte) Limited

##### **Past Directorships**

HDB Corporation Pte Ltd and various subsidiaries and associated companies of Keppel Land Limited  
Singapore Hotel Association  
Singapore International Chamber of Commerce

#### **Mr Tan Swee Yiew**

##### **Present Directorships**

Various subsidiaries and associated companies of Keppel Land Limited

##### **Past Directorships**

Various subsidiaries and associated companies of Keppel Land Limited

#### **Mrs Lee Ai Ming**

##### **Present Directorships**

Addvision Pte Ltd  
HTL Int'l Holdings Limited  
Keppel Land Limited  
Visodand Pte Ltd

##### **Past Directorships**

Nil

#### **Mr Lim Poh Chuan**

##### **Present Directorships**

Asian Credit Hedge Fund  
Asian CRC Hedge Fund  
Asian SBC Hedge Fund  
Asia Multi-Finance Hedge Fund  
Asian Special Finance Hedge Fund  
Global Credit Hedge Fund  
Income Partners (Singapore) Pte Limited  
Income Partners Greater China High Yield Fund  
New China Land Group Limited  
Regent Land Limited  
Grandlight Profits Limited  
Grandlight International Pte Ltd  
Singapore Energy Pte Ltd  
Singapore Electric Pte Ltd  
Sino Power Pte Ltd  
Shokuraku International Pte Ltd

##### **Past Directorships**

Interra Resources Limited  
Sino Eastern Development & Investment Corporation  
Shining Hope Pte Ltd  
Edgemont Holdings Pte Ltd  
Kapital Asia Company Limited

#### **Dr Chin Wei-Li, Audrey Marie**

##### **Present Directorships**

Singapore Petroleum Company Ltd  
Vietnam Investing Associates – Financials Singapore Private Limited  
NTUC Income Insurance Co-operative Singapore  
JC Trust Limited, Singapore

##### **Past Directorships**

Save the Children Singapore Limited  
Rossignol Private Limited



## Senior Management

Present and past principal directorships held by senior management in the last five years are as follows:

### **Daniel Cerf**

#### **Present Directorships**

Supreme Value Properties (M) Sdn Bhd

#### **Past Directorships**

K-REIT Asia MTN Pte. Ltd.

One Raffles Quay Pte Ltd

(as alternate director)

Raffles Quay Asset Management Pte

Ltd (as alternate director)

BFC Development Pte. Ltd.

(as alternate director)

Value Asset Management (M) Sdn Bhd

Value Properties Holdings Limited

Land & Capital Co. Limited

Thaicom Limited

### **Evelyn Tong**

#### **Present Directorships**

K-REIT Asia MTN Pte. Ltd.

#### **Past Directorships**

Nil

### **Joseph Low**

#### **Present Directorships**

Nil

#### **Past Directorships**

Nil

### **Chua Hsien Yang**

#### **Present Directorships**

Nil

#### **Past Directorships**

Nil

### **Serena Toh**

#### **Present Directorships**

Keppel Land (Tower D) Pte Ltd

#### **Past Directorships**

Nil

## The Manager



**1. Joseph Low**

Assistant General Manager,  
Investment

**2. Evelyn Tong**

Financial Controller

**3. Tan Swee Yiow**

Chief Executive Officer and Director

**4. Serena Toh**

Deputy General Manager,  
Investor Relations and Research

**5. Daniel Cerf**

Deputy Chief Executive Officer

**6. Chua Hsien Yang**

Assistant General Manager,  
Investment



**1. Lau Eng Noy**

Manager, Finance

**2. Loh Kar Yen**

Assistant Manager,  
Asset Management

**3. Betty Lim**

Assistant Manager, Investment

**4. Jeanette Pang**

Manager, Investor Relations  
and Research

**5. Peh Xueling**

Accountant

**6. Anthea Lee**

Manager, Investment

**7. Dawn Lee**

Senior Accountant

## The Property Manager



**1. Alvin Loh**  
Head, Property Management

**2. Albert Foo**  
General Manager, Marketing

**3. Sally Tan**  
Assistant General Manager, Marketing

**4. Christopher Ho**  
General Manager, Property Management



**1. Yong Siok Chin**  
Senior Manager, Property Management

**2. William Wong**  
Manager, Property Management

**3. Leong Geok Mui**  
Manager, Marketing

**4. Casey Chiang**  
Executive, Marketing

**5. Yvonne Toh**  
Manager, Marketing

**6. Wong Joo Siong**  
Manager, Property Management

**7. Alan Ng**  
Senior Manager,  
Property Management

# The Manager and The Property Manager

## The Manager K-REIT Asia Management Limited

### **Tan Swee Yiow**

Chief Executive Officer

Mr Tan is also a Director of K-REIT Asia Management Limited and his profile can be found under the 'Board of Directors' section of this Annual Report (page 20).

### **Daniel Cerf**

Deputy Chief Executive Officer

Mr Cerf handles strategic planning, investor relations, portfolio management and operations as well as sources for business development opportunities in Singapore and the pan-Asian markets.

He has more than 20 years of experience in real estate in Asia, working on investment and development ventures in Hong Kong, Philippines, Singapore, Indonesia, Thailand, Vietnam and Malaysia.

Prior to this appointment, Mr Cerf was General Manager of Special Duties, Keppel Land Limited. He has also held key positions with First Pacific Land Ltd in Hong Kong and Singapore in addition to Supreme Value Properties in Malaysia and Land & Capital Co. Limited in Thailand.

Mr Cerf is a licensed architect in the United States and holds a Bachelor of Architecture Degree (Dean's List) from the University of Oklahoma, USA.

## Investment

The investment team is responsible for identifying and evaluating potential acquisitions with a view to enhance the portfolio. Besides structuring potential acquisition transactions, the team members also identify possible divestment opportunities of properties that are no longer strategic, do not enhance the portfolio, or fail to be yield-accretive.

### **Joseph Low**

Assistant General Manager, Investment

Mr Low has more than 15 years of experience in various areas of the property industry, including investment, development, strategic planning, mergers and acquisitions, and corporate restructuring. He was formerly the Head of Corporate Development in Keppel Land Limited where he led a team in strategic planning, risk management and special investments.

Mr Low holds a Bachelor of Science Degree (Honours) in Estate Management from the National University of Singapore and a Master of Business Administration Degree from the University of Hull, United Kingdom. He is also a Chartered Financial Analyst.

### **Chua Hsien Yang**

Assistant General Manager, Investment

Mr Chua has more than seven years of experience in mergers and acquisitions, real estate investments, business development and asset management in the real estate sector within Asia Pacific. Prior to joining the Manager in 2008, he was Director, Business Development & Asset Management at Ascott Residence Trust Management Limited and was stationed in China.

Mr Chua holds a Bachelor of Civil Engineering Degree from the University of Canterbury, New Zealand and a Master of Business Administration Degree from the University of Western Australia.

### **Anthea Lee**

Manager, Investment

Ms Lee has more than 11 years of experience in real estate investment, business development, asset management and project management. Prior to joining the Manager, she was a business development manager at Ascendas Land (S) Pte Ltd.

Ms Lee holds a Bachelor of Science Degree (Honours) in Estate Management from the National University of Singapore and a Master of Science Degree (International Construction Management) from the Nanyang Technological University.

### **Betty Lim**

Assistant Manager, Investment

Ms Lim has more than eight years of experience in various areas of real estate industry, including development, strategic planning, finance, accounting and taxation. She was previously Assistant Manager, Corporate Development in Keppel Land Limited where she was involved in strategic planning and risk management. Prior to this appointment, she was a senior accountant with Keppel Land.

Ms Lim holds a Bachelor of Business Degree in Accounting & Finance from the Swinburne University of Technology. She is a member of the Certified Public Accountants of Australia.

## Asset Management

The asset management team implements business plans for the property portfolio with the aim of maximising rental income. The members work closely with the Property Manager so as to maximise the income potential of K-REIT Asia's properties and minimise expenses without compromising the marketability of the commercial space. The asset management team also focuses on operations and the implementation of key objectives, and supervises the Property Manager during the implementation process. The team recommends and analyses potential asset enhancement initiatives as well.

### **Loh Kar Yen**

Assistant Manager, Asset Management

Ms Loh has more than 11 years of experience in real estate asset management, valuation and lease management for private and public landlords. Before joining the Manager, she was handling asset management at Ascendas-MGM Funds Management Limited, the manager of Ascendas Real Estate Investment Trust.

Ms Loh holds a Bachelor of Science Degree (Honours) in Estate Management from the National University of Singapore.

## Finance

The finance team is responsible for the accounting, taxation, treasury, compliance and reporting functions of K-REIT Asia Management Limited. The team ensures that the finance functions are implemented in line with K-REIT Asia's investment and asset management strategies.

### **Evelyn Tong**

Financial Controller

Ms Tong has over 17 years of experience in the finance, accounting, tax, treasury and corporate secretarial roles in both public and private companies. She was previously the Chief Financial Officer of Koh Brothers Group Limited.

Ms Tong holds a Bachelor of Accountancy Degree from the Nanyang Technological University. She is a Certified Public Accountant of the Institute of Certified Public Accountants of Singapore and an associate member of the Institute of Chartered Secretaries and Administrators, London.

### **Lau Eng Noy**

Manager, Finance

Ms Lau has over 14 years of experience in financial and management accounting, external and internal auditing, tax, treasury and corporate secretarial functions in private and public listed companies. She has also worked in regional offices in Vietnam, China and Malaysia. Prior to joining K-REIT Asia, she was the Group Accounts Manager of Allied Technologies Ltd.

Ms Lau holds a professional qualification from the Association of Chartered Certified Accountants, United Kingdom. She is also a Certified

Public Accountant of the Institute of Certified Public Accountants of Singapore and a Fellow Member of the Association of Chartered Certified Accountants, United Kingdom.

## The Manager and The Property Manager

### Investor Relations and Research

The investor relations and research team is responsible for facilitating communications and liaison with Unitholders, analysts and fund managers with the aim of upholding transparency standards. The team coordinates analyst and investor meetings, quarterly performance announcements, production of annual reports and regular statutory reporting. It is also responsible for analysing commercial market trends.

#### **Serena Toh**

Deputy General Manager,  
Investor Relations and Research

Ms Toh has more than 20 years of experience in investor relations, corporate development and journalism. Ms Toh joined the Keppel Land Group in 1993 as Corporate Development Manager and was part of the pioneer management team of the Singapore Suzhou Township Development Pte Ltd.

Ms Toh holds a Bachelor of Arts & Social Science Degree from the National University of Singapore and a Master of Applied Finance from the University of Adelaide.

#### **Jeanette Pang**

Manager, Investor Relations  
and Research

Ms Pang has more than 13 years of experience in investor relations, journalism, equity research support and marketing communications. She was formerly an investor relations manager with Mapletree Logistics Trust Management Ltd.

Ms Pang holds a Bachelor of Arts & Social Science Degree from the National University of Singapore. She is also a Chartered Financial Analyst.

### The Property Manager K-REIT Asia Property Management Pte Ltd

#### **Christopher Ho**

General Manager,  
Property Management

Mr Ho is responsible for setting strategic directions, establishing policy standards as well as ensuring the smooth and efficient operation of all investment properties managed by the Property Management division. He also oversees tenants' retention activities, service quality standards and administration of all leases in the various investment properties.

He has over 20 years of experience in management of commercial properties. He has managed various large commercial projects in Singapore, China and Vietnam. Prior to joining Keppel Land Limited, he was the Property Director of China World Trade Centre in Beijing.

Mr Ho holds a Professional Diploma in Real Estate Marketing from Singapore Institute of Surveyors and Valuers, of which he is also a member.

## Property Management

### **Alvin Loh**

Head, Property Management

Mr Loh is responsible for overseeing the lease management and property management activities of the Manager. He also handles the concept planning and design development of new commercial and residential developments and oversees lease management and property management activities of completed properties under Keppel Land Limited.

Mr Loh brings with him over 20 years of experience in management of various large commercial properties in Singapore. Prior to joining Keppel Land Limited in 2008, Mr Loh was Associate Director of Asset Services Department in CB Richard Ellis.

Mr Loh holds a Diploma in Building Management and Maintenance from Ngee Ann Polytechnic and a Diploma in Management Studies from the Singapore Institute of Management. He is a Member of the Association of Property & Facility Managers.

## Marketing Services

### **Sally Tan**

Head, Marketing Services

Ms Tan oversees the marketing function of the Manager, ensuring that the buildings are leased at optimal market rents and occupancy to meet the commercial and financial targets for the portfolio.

She has over 16 years of marketing experience in commercial properties and business park developments. She was responsible for overseeing the marketing, leasing activities and lease management of Keppel Land's portfolio of commercial buildings, formulating marketing initiatives and customer relationship management. Prior to joining Keppel Land Limited, she was handling business development and marketing at JTC Corporation.

Ms Tan holds a Bachelor of Science Degree (Honours) in Estate Management from the National University of Singapore.

### **Albert Foo**

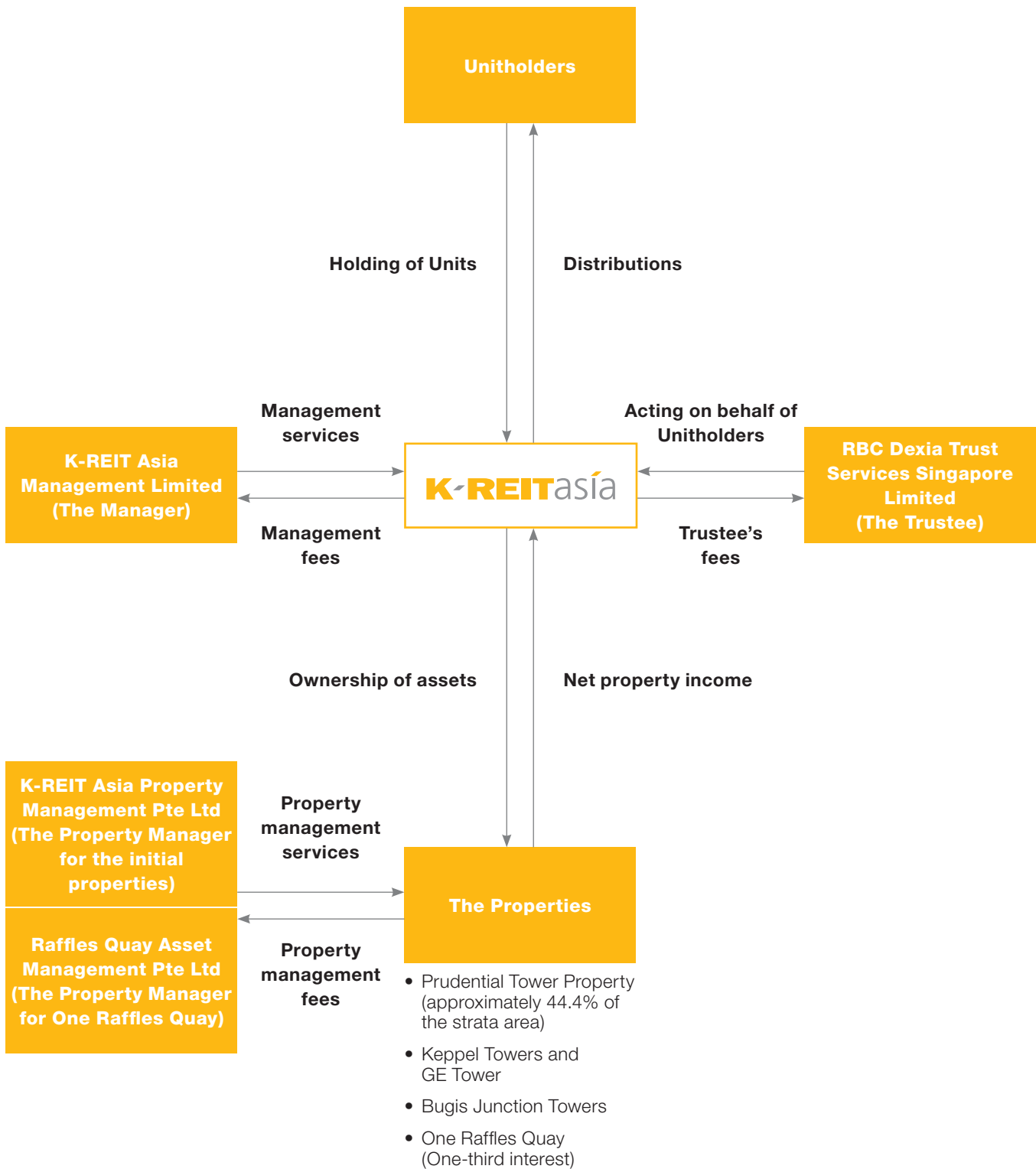
General Manager, Marketing

Mr Foo oversees the Marketing function and ensures that K-REIT Asia's buildings are leased at optimal rents and occupancy to meet the commercial and financial targets of the portfolio.

Mr Foo has over 20 years of experience in real estate and joined Keppel Land Limited in 2001. His experience in real estate covers marketing and sales, valuation and property management. Prior to joining Keppel Land Limited, he was the chief executive officer of Nationwide Realty Singapore Pte Ltd, a real estate consultancy.

Mr Foo holds a Master of Science Degree in Real Estate and a Bachelor of Science Degree (Honours) in Estate Management, both from the National University of Singapore.

# Trust Structure





## Corporate Governance

The Manager is fully committed to good corporate governance and transparency essential to sustain growth.

The Board and Management of K-REIT Asia Management Limited, the manager of K-REIT Asia (the Manager), are fully committed to good corporate governance as they firmly believe that it is essential to protect the best interests of the unitholders of K-REIT Asia (Unitholders), as well as critical to the performance and success of the Manager.

The Manager uses the Code of Corporate Governance 2005<sup>1</sup> (the Code) as its benchmark. The following describes the Manager's main corporate governance policies and practices with specific reference to the Code.

### The Manager of K-REIT Asia

The Manager has general powers of management over the assets of K-REIT Asia. The Manager's main responsibility is to manage the assets and liabilities of K-REIT Asia for the benefit of Unitholders. The Manager manages the assets of K-REIT Asia with a focus on generating rental income and to enhance the returns from the investments of K-REIT Asia and ultimately the distributions and total returns to Unitholders.

The primary role of the Manager is to set the strategic direction of K-REIT Asia and make recommendations

to RBC Dexia Trust Services Singapore Limited as trustee of K-REIT Asia (the Trustee) on the acquisition, divestment or enhancement of the assets of K-REIT Asia in accordance with its stated investment strategy. The research, analysis and evaluation required to achieve this is carried out by the Manager. The Manager is also responsible for the risk management of K-REIT Asia.

The Manager uses its best endeavours to carry on and conduct its business in a proper and efficient manner and to ensure that K-REIT Asia is carried on and conducted in a proper and efficient manner and to conduct all transactions with, or for K-REIT Asia, at arm's length.

Other functions and responsibilities of the Manager include:

1. Developing a business plan for K-REIT Asia with a view to maximising the income of K-REIT Asia;
2. Acquire, sell, lease, license or otherwise deal with any real estate in furtherance of the investment policy and prevailing investment strategy of K-REIT Asia;
3. Supervise and oversee the management of K-REIT Asia's properties (including lease audit, systems control, data management and business plan implementation);
4. Undertake regular individual asset performance analysis and market research analysis;
5. Manage the finances of

- K-REIT Asia, including accounts preparation, capital management, co-ordination of the budget process, forecast modelling, performance analysis and reporting, corporate treasury functions and ongoing financial market analysis;
6. Ensure compliance with the applicable provisions of the Companies Act, the Securities and Futures Act of Singapore and all other relevant legislation of Singapore, the Listing Manual of the Singapore Exchange Securities Trading Limited (SGX), the Code on Collective Investment Schemes (including the Property Fund Guidelines) issued by the Monetary Authority of Singapore, and the tax rulings issued by the Inland Revenue Authority of Singapore on taxation of K-REIT Asia and its Unitholders;
7. Manage communications with Unitholders; and
8. Supervising the property managers which perform the day-to-day property management functions (including leasing, accounting, budget, marketing, promotion, property management, maintenance and administration) for K-REIT Asia's properties, pursuant to the property management agreements signed for the respective properties.

K-REIT Asia, constituted as a trust, is externally managed by the Manager

<sup>1</sup> The Code of Corporate Governance 2005 issued by the Ministry of Finance on 14 July 2005.

and therefore has no personnel of its own. The Manager appoints experienced and well-qualified management to run the day-to-day operations of K-REIT Asia. All Directors and employees of the Manager are remunerated by the Manager, and not by K-REIT Asia.

The Manager is appointed in accordance with the terms of the Trust Deed dated 28 November 2005 as amended by the Supplemental Trust Deed dated 2 February 2006, the Second Supplemental Trust Deed dated 17 March 2006, the Third Supplemental Deed dated 30 July 2007, the Fourth Supplemental Deed dated 17 October 2007 and the Fifth Supplemental Deed dated 19 January 2009 (collectively, the Trust Deed). The Trust Deed outlines certain circumstances under which the Manager can be removed by notice in writing given by the Trustee in favour of a corporation appointed by the Trustee, upon the occurrence of certain events, including if the Unitholders, by a resolution duly proposed and passed by a simple majority of Unitholders present and voting at a meeting of Unitholders, with no Unitholder (including the Manager) being disenfranchised, vote to remove the Manager.

### **The Board's Conduct of Affairs**

#### ***Principle 1: Effective Board to lead and control the company***

The Board of Directors of the Manager (the Board) is responsible for the overall management and the corporate governance of the Manager and K-REIT Asia, including establishing goals for management and monitoring the achievement of these goals.

The principal functions of the Board are to:

- decide on matters in relation to K-REIT Asia's and the Manager's activities which are significant in nature, including decisions on strategic directions and guidelines

and the approval of periodic plans and major investments and divestments;

- oversee the business and affairs of K-REIT Asia and the Manager, establish, with management, the strategies and financial objectives to be implemented by management, and monitor the performance of management;
- oversee processes for evaluating the adequacy of internal controls, risk management, financial reporting and compliance, and satisfy itself as to the adequacy of such processes; and
- assume responsibility for corporate governance.

All directors of the Manager (the Directors) are expected to exercise independent judgment in the best interests of K-REIT Asia, and all Directors have discharged this duty consistently well.

To assist the Board in the discharge of its oversight function, the Audit Committee and the Nominating and Remuneration Committee have been constituted with clear written terms of reference. The Committees are actively engaged and play an important role in ensuring good corporate governance. The terms of reference of the respective Board committees are disclosed in the Appendix to this report.

The Board meets four times a year and as warranted by particular circumstances to discuss and review the Manager's key activities, including its business strategies and policies for K-REIT Asia, proposed acquisitions and disposals, the annual budget, review the performance of the business and the financial performance of K-REIT Asia and the Manager. The Board also reviews and approves the release of the quarterly, half-yearly and full-year results. In addition, the Board reviews the risks to the assets of K-REIT Asia, and acts upon any comments from the auditors of K-REIT Asia.

**Table 1**

	Board Meetings	Audit Committee Meetings	Nominating and Remuneration Committee Meetings
Professor Tsui Kai Chong	4	–	2
Mr Kevin Wong Kingcheung	4	–	–
Mr Tan Swee Yiow	4	–	–
Mrs Lee Ai Ming	4	3	–
Mr Lim Poh Chuan	4	4	2
Dr Chin Wei-Li, Audrey Marie	4	4	2
<b>Number of Meetings Held</b>	<b>4</b>	<b>4</b>	<b>2</b>

The Manager's Articles of Association permit Board meetings to be held by way of conference by telephone or any other electronic means of communication by which all persons participating are able, contemporaneously, to hear and be heard by all other participants.

The number of Board and Board committee meetings held in FY2008, as well as the attendance of each Board member at these meetings, are disclosed in Table 1 above.

The Manager has adopted a set of internal guidelines which sets out the financial authority limits for investment/business acquisition and divestment, operating/capital expenditure, leasing, disposal and write-off of assets and corporate matters that require the approval of the Board. Appropriate delegations of authority and approval sub-limits are also provided at management level to facilitate operational efficiency.

A formal letter is sent to newly-appointed Directors upon their appointment explaining their duties and obligations as director. Changes to laws, regulations, policies, accounting standards and industry-related matters are monitored closely. Where the changes have an important and significant bearing on K-REIT Asia and its disclosure obligations, the Directors are briefed either during Board meetings, at specially convened sessions or via circulation of Board

papers. The Directors are also provided with continuing education in areas such as directors' duties and responsibilities, corporate governance, changes in financial reporting standards, insider trading, changes in the Companies Act and industry-related matters, so as to update and refresh them on matters that affect or may enhance their performance as Board or Board committee members.

#### **Board Composition and Guidance** **Principle 2: Strong and independent element on the Board**

Presently, the Board consists of six members, four of whom are independent non-executive Directors. The Chairman of the Board is Professor Tsui Kai Chong, who is an independent non-executive Director. A Director who has no relationship with the Manager, its related companies or its officers that could interfere, or be reasonably perceived to interfere, with the exercise of the Director's independent business judgment in the best interests of K-REIT Asia, is considered to be independent.

The Nominating and Remuneration Committee (NRC) determines on an annual basis whether or not a Director is independent, bearing in mind the Code's definition of an "independent director" and guidance as to relationships the existence of which would deem a Director not to be independent.

The NRC is of the view that, taking into account the nature and scope of K-REIT Asia's operations, the present Board size is appropriate and facilitates effective decision making.

The nature of the Directors' appointments on the Board and details of their membership on Board committees are set out in the Appendix hereto.

The NRC is satisfied that the Board comprises Directors who as a group provide core competencies such as accounting or finance, business or management experience, industry knowledge, strategic planning experience and customer-based experience or knowledge, required for the Board to be effective.

The composition of the Board is also determined using the following principles:

- i the Chairman of the Board should be a non-executive Director of the Manager;
- ii the Board comprises Directors with a range of commercial and financial experience including expertise in funds management and the property industry; and
- iii at least one-third of the Board comprises independent Directors.

The composition is reviewed regularly to ensure that the Board has the appropriate mix of expertise and experience.

The Board and management fully appreciate that fundamental to good corporate governance is an effective and robust Board whose members engage in open and constructive debate and challenge management on its assumptions and proposals. For this to happen, the Board, in particular, the non-executive Directors, are kept well informed of K-REIT Asia's and the Manager's businesses and affairs and are knowledgeable about the industry in which the businesses operate. For the current financial year, the non-executive Directors have constructively challenged and helped to develop

## Corporate Governance

proposals on strategy and reviewed the performance of management. The non-executive Directors are well supported by accurate, complete and timely information, have unrestricted access to management, and have sufficient time and resources to discharge their oversight function effectively.

### **Chairman and Chief Executive Officer**

#### ***Principle 3: Clear division of responsibilities for the working of the Board and the executive responsibility of the company's business to ensure a balance of power and authority***

The positions of Chairman and Chief Executive Officer (CEO) are held by two separate persons to ensure an appropriate balance of power, increased accountability and greater capacity of the Board for independent decision making. The Chairman and the CEO are not related to each other.

The Chairman leads the Board in working together with management with integrity, competency and in an effective manner to address strategy, business operations and enterprise risk issues, and facilitates the effective contribution of the non-executive Directors and the Board as a whole. With the assistance of the company secretaries, the Chairman also sets and approves the agenda of all Board meetings.

The Chairman monitors the flow of information from management to the Board to ensure that material information is provided timeously to the Board. He also encourages constructive relations between the Board and management, and between the executive Director and non-executive Directors.

The Chairman ensures effective communication with Unitholders. He also takes a leading role in promoting high standards of corporate governance with the full support of the Directors and the management.

The CEO is responsible for working with the Board to determine the strategy for K-REIT Asia. The CEO also works with the other members of the Manager's management team to ensure that K-REIT Asia is operated in accordance with the stated investment strategy of the Manager. He is also responsible for the strategic planning and development of K-REIT Asia. The CEO is fully supported by the Deputy CEO in his duties and responsibilities.

The clear separation of roles of the Chairman and the CEO provides a healthy professional relationship between the Board and management with clarity of roles and robust deliberation on the business activities of K-REIT Asia.

### **Board Membership**

#### ***Principle 4: Formal and transparent process for the appointment of new directors to the Board***

#### **Nominating and Remuneration Committee**

The Manager has established a Nominating and Remuneration Committee (NRC) to, among other things, make recommendations to the Board on all Board appointments. The NRC comprises of three Directors, all of whom are independent; namely:

Mr Lim Poh Chuan	Chairman
Professor Tsui Kai Chong	Member
Dr Chin Wei-Li, Audrey Marie	Member

The terms of reference of the NRC are disclosed in the Appendix hereto.

#### **Process for Appointment of New Directors**

A formal process for the selection of new Directors to increase transparency of the nominating process in identifying and evaluating nominees for Directors has been implemented since February 2007. The NRC leads the process and makes recommendations to the Board as follows:

- a. NRC evaluates the balance of skills, knowledge and experience

on the Board and, in the light of such evaluation and in consultation with management, prepares a description of the role and the essential and desirable competencies for a particular appointment

- b. External help (for example, Singapore Institute of Directors, search consultants, open advertisement) to be used to source for potential candidates if need be. Directors and management may also make suggestions
- c. NRC meets with the short-listed candidates to assess suitability and to ensure that the candidate(s) are aware of the expectations and the level of commitment required
- d. NRC makes recommendations to the Board for approval.

#### **Criteria for Appointment of New Directors**

All new appointments are subject to the recommendation of the NRC based on the following objective criteria:

1. Integrity
2. Independent mindedness
3. Diversity – Possess core competencies that meet the current needs of K-REIT Asia and the Manager and complement the skills and competencies of the existing Directors on the Board
4. Able to commit time and effort to carry out duties and responsibilities effectively – proposed director is on not more than six principal boards
5. Track record of making good decisions
6. Experience in high-performing corporations or property funds
7. Financially literate

The NRC is also charged with determining the "independence" status of the Directors annually. Please refer to page 33 on the basis of the NRC's determination as to whether a Director should or should not be deemed independent.

The NRC also determines annually whether a Director with multiple board representations is able to and has been

adequately carrying out his duties as a Director of the Manager. The NRC took into account the results of the assessment of the effectiveness of the individual Director, and the respective Directors' actual conduct on the Board, in making this determination, and is satisfied that all the Directors have been able to and have adequately carried out their duties as Director notwithstanding their multiple board representations.

The NRC has adopted internal guidelines addressing competing time commitments that are faced when Directors serve on multiple boards. As a guide, Directors should not serve on more than six principal boards.

The following key information regarding Directors are set out in the following pages of this Annual Report:

Pages 19 to 22 and 44: Academic and professional qualifications, Board committees served on (as a member or chairman), date of first appointment as a Director, directorships or chairmanships both present and past held over the preceding five years in other listed companies and other major appointments, whether appointment is executive or non-executive, whether considered by the NRC to be independent; and

Page 99: Unitholding (if any) in K-REIT Asia as at 21 January 2009.

### **Board Performance**

#### ***Principle 5: Formal assessment of the effectiveness of the Board as a whole and the contribution by each director to the effectiveness of the Board***

The Board has implemented formal processes which are to be carried out by the NRC for assessing the effectiveness of the Board as a whole, and the contribution by each individual Director to the effectiveness of the Board.

The evaluation of the Board and of individual Directors for FY2008 was

done by the members of the NRC at the NRC meeting held in January 2009. At the NRC meeting, the NRC members assessed the effectiveness of the Board as a whole and the contribution by each individual Director using the following performance criteria:

- a. The performance criteria for the Board evaluation are in respect of the Board size and composition, Board independence, Board performance in relation to discharging its principal functions, Board committee performance in relation to discharging their responsibilities set out in their respective terms of reference, and financial targets which includes earnings per unit, distribution per unit, leverage ratio, net asset value per unit, unit price performance and total Unitholder return (i.e. distribution per unit plus unit price increase over the year).
- b. The individual Director's performance criteria are categorised into 5 segments; namely, (1) interactive skills (under which factors as to whether the Director works well with other Directors, and participates actively are taken into account); (2) knowledge (under which factors as to the Director's industry and business knowledge, functional expertise, whether he provides valuable inputs, his ability to analyse, communicate and contribute to the productivity of meetings, and his understanding of finance and accounts are taken into consideration); (3) Director's duties (under which factors as to the Director's Board committee work contribution, whether the Director takes his role of Director seriously and works to further improve his own performance, whether he listens and discusses objectively and exercises independent judgment, and meeting preparation are taken into consideration); (4) availability (under which the Director's attendance at Board and Board committee

## Corporate Governance

meetings, whether he is available when needed, and his informal contribution via e-mail, telephone, written notes etc are considered); and (5) overall contribution, bearing in mind that each Director was appointed for his/her strength in certain areas which, taken together with the skill sets of the other Directors, provides the Board with the required mix of skills and competencies.

After the assessment by the NRC, the chairman of the NRC will discuss the findings of the NRC with the Chairman of the Board so that they may provide the Board with the necessary feedback with a view to improving Board performance and Unitholders' value.

The Board assessment exercise helped the Directors to focus on their key responsibilities. It also assisted the NRC in determining whether Directors with multiple board representations are nevertheless able to and have adequately discharged their duties as Directors of the Manager.

### **Access to Information** **Principle 6: Board members to have complete, adequate and timely information**

Management provides the Board with relevant and accurate information in a timely manner relating to matters to be brought before the Board, prior to Board meetings and on an ongoing basis.

As a general rule, Board papers are required to be sent to Directors at least seven days before the Board meeting. However, sensitive matters may be tabled at the meeting itself or discussed without any papers being distributed. Managers who can provide additional insight into the matters at hand would be present at the relevant time during the Board meeting. The Board has separate and independent access to the Manager's senior management for further clarification if required.

The information provided to the Board includes financial results, market and business developments, and business and operational information. Such reports keep the Board informed, on a balanced and understandable basis, of K-REIT Asia's performance, financial position and prospects. The financial results are also compared against the budgets, together with explanations given for significant variances for the reporting period.

The Manager has implemented quarterly financial reporting for K-REIT Asia from the date of listing of K-REIT Asia on the SGX.

The Directors have separate and independent access to both company secretaries of the Manager. The company secretaries assist the Chairman to ensure that Board procedures (including but not limited to assisting the Chairman to ensure the timely and good information flow to the Board and its committees, and between senior management and the non-executive Directors) are followed and that the Manager's memorandum and articles of association and relevant rules and regulations are complied with. At least one of the two company secretaries attends all Board meetings and prepares minutes of the Board proceedings. The appointment and removal of each of the company secretaries are subject to the approval of the Board as a whole.

Subject to the approval of the Chairman, the Directors, whether as a group or individually, may seek and obtain independent professional advice in the furtherance of their duties.

### **Remuneration Matters**

**Principle 7: Formal and transparent procedure for developing policy on executive remuneration and for fixing remuneration packages of individual directors**

**Principle 8: Remuneration of directors should be adequate but not excessive**

**Principle 9: Disclosure on remuneration**

### **policy, level and mix of remuneration, and procedure for setting remuneration**

The composition of the NRC has been set out above under Principle 4. The NRC comprises entirely of non-executive and independent Directors.

The NRC is responsible for ensuring a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual Directors and senior management. The NRC assists the Board to ensure that remuneration policies and practices are sound in that they are able to attract, retain and motivate without being excessive, and thereby maximise Unitholders' value. The NRC recommends to the Board for endorsement a framework of remuneration (which covers all aspects of remuneration including Directors' fees, salaries, allowances, bonuses, options and benefits-in-kind) and the specific remuneration packages for each Director (including the CEO). The NRC also reviews the remuneration of the senior management of the Manager. The aim of the NRC is to motivate and retain Directors and key executives of the Manager, and to ensure that the Manager is able to attract and retain the best talent in the market in order to maximise Unitholders' value.

The NRC has access to expert advice in the field of executive compensation outside the Manager where required.

### **Annual Remuneration Report**

The remuneration of all Directors and employees of the Manager is paid by the Manager, and not by K-REIT Asia.

### **Policy in Respect of Directors' Remuneration**

Director's fees are established annually for the Directors, the amount of which is dependent on their level of responsibilities on the Board and its committees. Each Director is paid a basic fee. In addition, Directors who

perform additional services through Board committees are paid an additional fee for such services. The chairman of the Board and of each Board committee is paid a higher fee compared with members of the Board and of such Board committee in view of the greater responsibility carried by that office. None of the Directors has any service contracts with the Manager.

The framework in FY2008 for determining the Directors' fees is set out in Table 2.

### Remuneration Policy in Respect of Key Executives

The Manager advocates a performance-based remuneration system that is highly flexible and responsive to the market and the individual employee's performance.

The total remuneration mix comprises two key components; that is, annual fixed pay and annual performance incentive. The annual fixed pay component comprises the annual basic salary plus any other fixed allowances. The annual performance incentive is tied to the individual employee's performance.

The compensation structure is designed such that to stay competitive and relevant, the Manager benchmarks the annual fixed salaries of key executives at the market median with the variable compensation being strictly performance-driven. More emphasis is placed on the "pay-at-risk" compensation as an employee moves up the corporate ladder, with increasing percentage on performance-related bonuses. This allows the Manager to better align executive compensation towards Unitholders' value creation.

No employee share option schemes have been implemented.

### Level and Mix of Remuneration of Directors and Top Five Key Executives (who are not also Directors) for the Year Ended 31 December 2008

The level and mix of each of the Directors' remuneration, and that of each of the top five key executives (who are not also Directors), in bands of \$250,000, are set out in Table 3.

### Remuneration of Employees who are Immediate Family Members of a Director or the Chief Executive Officer

No employee of the Manager was an immediate family member of a Director or the CEO and whose remuneration exceeded \$150,000 during FY2008. "Immediate family member" means the spouse, child, adopted child, step-child, brother, sister and parent.

Table 2

<b>Main Board</b>	Chairman	\$45,000 per annum
	Director	\$30,000 per annum
<b>Audit Committee</b>	Chairman	\$12,000 per annum
	Member	\$8,000 per annum
<b>Nominating and Remuneration Committee</b>	Chairman	\$8,000 per annum
	Member	\$4,000 per annum

Table 3

Remuneration Band and Names of Directors	Base/Fixed Salary	Variable or Performance-Related Income/Bonuses	Directors' Fees	Benefits-in-Kind	Stock Options Granted
<b>Below \$250,000</b>					
Professor Tsui Kai Chong	–	–	100%	–	–
Mr Kevin Wong Kingcheung	–	–	100%	–	–
Mr Tan Swee Yiw	–	–	100%	–	–
Mrs Lee Ai Ming	–	–	100%	–	–
Mr Lim Poh Chuan	–	–	100%	–	–
Dr Chin Wei-Li, Audrey Marie	–	–	100%	–	–

Remuneration Bands and Names of Top Five Key Executives	Base/Fixed Salary	Variable or Performance-Related Income/Bonuses	Directors' Fees	Benefits-in-Kind	Stock Options Granted
<b>Above \$250,000 to \$500,000</b>					
Mr Daniel Cerf	78%	22%	–	Nm <sup>3</sup>	–
<b>Below \$250,000</b>					
Ms Evelyn Tong <sup>1</sup>	79%	21%	–	Nm <sup>3</sup>	–
Mr Joseph Low	72%	28%	–	Nm <sup>3</sup>	–
Ms Jeanette Pang	71%	29%	–	Nm <sup>3</sup>	–
Mr Chua Hsien Yang <sup>2</sup>	80%	20%	–	Nm <sup>3</sup>	–

#### Notes

<sup>1</sup> Ms Evelyn Tong joined the Manager on 14 January 2008.

<sup>2</sup> Mr Chua Hsien Yang joined the Manager on 5 June 2008.

<sup>3</sup> Nm – Not meaningful

### **Accountability and Audit**

**Principle 10: The Board should present a balanced and understandable assessment of the Company's performance, position and prospects**

**Principle 11: Establishment of Audit Committee with written terms of reference**

The Board is responsible for providing a balanced and understandable assessment of K-REIT Asia's performance, position and prospects, including interim and other price sensitive public reports, and reports to regulators (if required).

The Board has embraced openness and transparency in the conduct of K-REIT Asia's and the Manager's affairs, whilst preserving the commercial interests of K-REIT Asia and the Manager. Financial reports and other price sensitive information are disseminated to Unitholders through announcements via SGXNET to the SGX, press releases, K-REIT Asia's website and media and analyst briefings.

Management provides all members of the Board with management accounts which present a balanced and understandable assessment of K-REIT Asia's performance, position and prospects on a periodic basis. Such reports include financial results, market and business developments, and business and operational information. The financial results are compared against the respective budgets, together with explanations for significant variances for the reporting period.

### **Audit Committee**

The Audit Committee (AC) has been appointed by the Board from among the Directors of the Manager and comprises three non-executive Directors, all of whom (including the chairman of the AC) are independent Directors. The chairman of the AC is Dr Chin Wei-Li, Audrey Marie and the members are Mr Lim Poh Chuan and Mrs Lee Ai Ming.

All members of the AC have accounting or related financial management expertise or experience.

The AC's main role is to assist the Board to ensure integrity of financial reporting and that there is in place sound internal control systems. The AC's terms of reference are set out on page 44 herein.

The AC has explicit authority to investigate any matter within its terms of reference, full access to and co-operation by management and full discretion to invite any Director or executive officer to attend its meetings, and reasonable resources to enable it to discharge its functions properly. The Manager's internal audit functions are performed by Keppel Corporation Limited's Group Internal Audit department (Group Internal Audit). Group Internal Audit, together with the external auditors, report independently their findings and recommendations to the AC.

The AC met with the external auditors and with the internal auditors once during the year without the presence of the management.

During the year, the AC performed independent review of the financial statements of K-REIT Asia before the announcement of K-REIT Asia's quarterly and full-year results. In the process, the AC reviewed the key areas of management judgment applied for adequate provisioning and disclosure, critical accounting policies and any significant changes made that would have a significant impact on the financials.

The AC also reviewed and approved both the internal auditor's and external auditor's plans to ensure that the plans covered sufficiently in terms of audit scope in reviewing the significant internal controls of K-REIT Asia and the Manager. Such significant controls comprise financial, operational and compliance controls. All audit findings and recommendations put up by the



internal and the external auditors were forwarded to the AC. Significant issues were discussed at these meetings.

In addition, the AC undertook a review of the independence and objectivity of the external auditors through discussions with the external auditors as well as reviewing the non-audit fees awarded to them, and has confirmed that the non-audit services performed by the external auditors would not affect their independence.

The AC also reviewed the adequacy of the internal audit function and is satisfied that the team is adequately resourced and has appropriate standing within K-REIT Asia and the Manager.

The AC reviewed the “Whistle-Blower Protection Policy” which provides for the mechanisms by which employees and other persons may, in confidence, raise concerns about possible improprieties in financial reporting or other matters, and was satisfied that arrangements are in place for the independent investigation of such matters and for appropriate follow-up action.

### **Internal Controls**

#### **Principle 12: Sound system of internal controls**

To assist the Board in the effective discharge of its responsibilities in ensuring that K-REIT Asia and the Manager maintain a sound system of internal controls to safeguard K-REIT Asia’s assets and Unitholders’ interests, the Manager has put in place internal control policies and procedures in areas such as financial, operational and compliance controls and risk management.

#### **Risk Assessment and Management of Business Risk**

Recognising and managing risk is central to the business of K-REIT Asia and to protecting Unitholders’ interests and value. K-REIT Asia operates within overall guidelines and specific parameters set by the Board. Responsibility for

managing risk lies initially with the Manager, working within the overall strategy outlined by the Board. The Manager has appointed experienced and well-qualified management to handle its day-to-day operations.

The Board met four times in 2008 to review the financial performance of K-REIT Asia against a previously approved budget. During the year, the Board also discussed the key business risks in K-REIT Asia and the risk management framework and policies that the management presented.

In assessing business risks, the Board takes into consideration the economic environment and the risks relevant to the property industry. The Manager has implemented a systematic risk assessment process to identify business risks and mitigating actions. The Company’s approach to risk management and internal control and the management of key business risks is set out in the “Risk Management” section on page 83 of this Annual Report.

In addition, the Manager has adopted the Whistle-Blower Protection Policy, Insider Trading Policy and Code of Practice for Safeguarding Information which reflects the management commitment to conduct its business within a framework that fosters the highest ethical and legal standards.

#### **Independent Review of Internal Controls**

The Manager’s internal and external auditors conduct an annual review of the effectiveness of K-REIT Asia’s and the Manager’s material internal controls, including financial, operational and compliance controls, and risk management. Any material non-compliance or failures in internal controls and recommendations for improvements are reported to the AC. The AC also reviews the effectiveness of the actions taken by the management on the recommendations made by the internal and external auditors in this respect.

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During the year, the AC reviewed the effectiveness of K-REIT Asia's and the Manager's internal control procedures and was satisfied that the internal controls are adequate to meet the needs of K-REIT Asia and the Manager in their respective current business environment. The Board is also satisfied that K-REIT Asia's and the Manager's internal controls are adequate, based on the reports from Group Internal Audit and the external auditors.

### Internal Audit

#### **Principle 13: Independent internal audit function**

The internal audit function of the Manager is performed by Group Internal Audit. Group Internal Audit was appointed as the internal auditor in February 2006.

The role of the internal auditor is to assist the AC to ensure that K-REIT Asia and the Manager maintain a sound system of internal controls by reviewing the key controls and procedures and ensuring their effectiveness, undertaking investigations as directed by the AC, and conducting regular in-depth audits of high risk areas.

Staffed by suitably qualified executives, Group Internal Audit has unrestricted direct access to the AC. The Head of Group Internal Audit's primary line of reporting is to the chairman of the AC.

As a corporate member of the Singapore branch of the Institute of Internal Auditors Incorporated, USA (IIA), Group Internal Audit is guided by the Standards for the Professional Practice of Internal Auditing set by the IIA. These standards consist of attribute, performance and implementation standards. The professional competence of Group Internal Audit is maintained through its continuing professional development programme for its staff which includes sending auditors to attend professional courses conducted by

external accredited organisations to enhance their knowledge on auditing techniques, auditing and accounting pronouncements.

During the year, Group Internal Audit adopted a risk-based auditing approach that focuses on material internal controls, including financial, operational and compliance controls. Group Internal Audit's reports are submitted to the AC for deliberation with copies of these reports extended to the relevant senior management personnel. In addition, Group Internal Audit's summary of findings and recommendations are discussed at the AC meetings.

### Communication with Unitholders

#### **Principle 14: Regular, effective and fair communication with Unitholders**

#### **Principle 15: Greater Unitholder participation at Unitholders' Meetings**

In addition to the matters mentioned above in relation to "Access to Information/Accountability", the Manager regularly communicates with Unitholders and receives and attends to their queries and concerns. More details on the Manager's investor relations activities and efforts are found on pages 94 and 95.

Material information is disclosed in a comprehensive, accurate and timely manner via SGXNET and the press. To ensure a level playing field and provide confidence to Unitholders, unpublished price sensitive information are not selectively disclosed, and on the rare occasion when such information are inadvertently disclosed, they are immediately released to the public via SGXNET and the press.

Unitholders are informed of Unitholders' meetings through notices published in the newspapers and/or circulars sent to all Unitholders. Unitholders are invited at such meetings to put forth any questions they may have on the motions to be

debated and decided upon. If any Unitholder is unable to attend, he is allowed to appoint up to two proxies to vote on his behalf at the meeting through proxy forms sent in advance.

At Unitholders' meetings, each distinct issue is proposed as a separation resolution. The chairman of each Board committee is required to be present to address questions at Unitholders' meetings. External auditors are also present at such meetings to assist the Directors to address Unitholders' queries, if necessary.

The Manager is not implementing absentia voting methods such as voting via mail, e-mail or fax until security, integrity and other pertinent issues are satisfactorily resolved.

The company secretary of the Manager prepares minutes of Unitholders' meetings, which incorporates substantial comments or queries from Unitholders and responses from the Board and management. These minutes are available to Unitholders upon their requests.

### **Securities Transactions Insider Trading Policy**

The Manager has a formal Insider Trading Policy on dealings in the securities of K-REIT Asia, which sets out the implications of insider trading and guidance on such dealings. The policy has been distributed to the Manager's directors and officers. It has also adopted the best practices on securities dealings issued by the SGX. In line with these best practices, the Manager issues circulars to its directors and officers informing that the Manager and its officers must not deal in listed securities of K-REIT Asia one month before the release of the full-year results and (where applicable) property valuations and two weeks before the release of quarterly results, and if they are in possession of unpublished price-sensitive information. The Manager's officers are also informed that they

should not deal in K-REIT Asia's securities on short-term considerations.

### **Conflicts of Interests**

The Manager has instituted the following procedures to deal with potential conflicts of interests issues:

1. The Manager will not manage any other real estate investment trust which invests in the same types of properties as K-REIT Asia.
2. All executive officers will be employed by the Manager.
3. All resolutions in writing of the Directors of the Manager in relation to matters concerning K-REIT Asia and its Interested Parties (meaning any "interested person" (as defined in the Listing Manual) and/or, as the case may be, an "interested party" (as defined in the Property Fund Guidelines) (Interested Party) must be approved by a majority of the Directors, including at least one independent Director and the nominees of the Interested Party on the Board shall abstain from voting.
4. At least one-third of the Board shall comprise independent Directors.
5. All matters relating to Interested Party transactions will follow the procedures set out in the section "Interested Party Transactions" on pages 42 and 43.
6. In respect of matters in which Keppel Land Limited (Keppel Land) and/or Keppel Corporation Limited (KCL) and/or its/their subsidiaries have an interest, direct or indirect, any nominees appointed by Keppel Land and/or KCL and/or its/their subsidiaries to the Board to represent its/their interests shall abstain from voting. In such matters, the quorum shall comprise a majority of the independent Directors of the Manager and shall exclude such nominee directors of Keppel Land and/or KCL and/or its/their subsidiaries.

It is also provided in the Trust Deed that if the Manager is required to decide whether to or not to take any action against any person in relation to any

## Corporate Governance

breach of any agreement entered into by the Trustee for and on behalf of K-REIT Asia with an Interested Party of the Manager, the Manager shall be obliged to consult with a reputable law firm (acceptable to the Trustee) who shall provide legal advice on the matter. If the said law firm is of the opinion that the Trustee, on behalf of the K-REIT Asia, has a *prima facie* case against the party allegedly in breach under such agreement, the Manager shall be obliged to take appropriate action in relation to such agreement. The Directors of the Manager (including its independent Directors) will have a duty to ensure that the Manager so complies.

Notwithstanding the foregoing, the Manager shall inform the Trustee as soon as it becomes aware of any breach of any agreement entered into by the Trustee for and on behalf of the K-REIT Asia with an Interested Party of the Manager and the Trustee may take such action as it deems necessary to protect the rights of the Unitholders and/or which is in the interests of Unitholders. Any decision by the Manager not to take action against an Interested Party of the Manager shall not constitute a waiver of the Trustee's right to take such action as it deems fit against such Interested Party.

The Board of the Manager comprises four independent Directors, two of whom (that is, Professor Tsui Kai Chong and Mrs Lee Ai Ming) are also independent directors of Keppel Land. Where there is any matter to be considered and voted upon by the Directors of the Manager in relation to transactions between K-REIT Asia on the one hand and Keppel Land and its subsidiaries on the other, Professor Tsui Kai Chong and/or Mrs Lee Ai Ming shall abstain from voting in such situations where they find themselves in a position in which they are unable to exercise independent judgment in the best interests of K-REIT Asia.

Further, to address potential conflicts of interests in respect of overlapping

investment objectives, Keppel Land will inform K-REIT Asia if any completed investment property used or predominantly used for commercial purposes and which is income-producing is identified by Keppel Land as being suitable for acquisition (other than co-investment with third parties), and being suitable for investment by K-REIT Asia. Further details are set out in "The Manager and Corporate Governance – Conflicts Resolution" section of the Introductory Document of K-REIT Asia dated 20 March 2006.

Under the Trust Deed, the Manager and its Associates (as defined in the Trust Deed) are prohibited from voting their units at, or being part of a quorum for, any meeting of Unitholders convened to approve any matter in which the Manager or any of its Associates has a material interest in the business to be conducted.

### **Interested Party Transactions** **The Manager's Internal Control System**

The Manager has established an internal control system to ensure that all future Interested Party transactions will be undertaken on normal commercial terms and will not be prejudicial to the interests of K-REIT Asia and the Unitholders. As a general rule, the Manager must demonstrate to the AC that such transactions satisfy the foregoing criteria, which may entail obtaining (where practicable) quotations from parties unrelated to the Manager, or obtaining one or more valuations from independent professional valuers (in accordance with the Property Fund Guidelines).

Further, the following procedures are undertaken:

- 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 \$100,000 in value but below 3.0% of the value of

K-REIT Asia's net tangible assets will be subject to review by the AC 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 K-REIT Asia's net tangible assets will be subject to the review and approval of the AC. Such approval shall only be given if the transactions are on normal commercial terms and are consistent with similar types of transactions made by the Trustee with third parties which are unrelated to the Manager; 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 K-REIT Asia's net tangible assets will be reviewed and approved, on the basis described in the preceding paragraph, by the AC 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 rules of the Listing Manual and the Property Fund Guidelines, such transactions would have to be approved by the Unitholders at a meeting of Unitholders.

Where matters concerning K-REIT Asia relate to transactions entered into or to be entered into by the Trustee for and on behalf of K-REIT Asia with an Interested Party of the Manager of K-REIT Asia, the 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 interest of K-REIT Asia and the Unitholders, and in accordance with all applicable requirements of the Property Fund

Guidelines and/or the Listing Manual relating to the transaction in question. Further, the Trustee has the ultimate discretion under the Trust Deed to decide whether or not to enter into a transaction involving an Interested Party of the Manager or of K-REIT Asia. If the Trustee is to sign any contract with an Interested Party of the Manager or of K-REIT Asia, the Trustee will review the contract to ensure that it complies with the requirements relating to Interested Party transactions in the Property Fund Guidelines (as may be amended from time to time) and the provisions of the Listing Manual relating to interested person transactions (as may be amended from time to time) as well as such other guidelines as may from time to time be prescribed by the Monetary Authority of Singapore and the SGX to apply to real estate investment trusts. If the Trustee is to sign any contract with an Interested Party of the Trustee, such review will be carried out by the AC, but not the Trustee.

K-REIT Asia will, in compliance with Rule 905 of the Listing Manual, announce any interested person transaction if such transaction, by itself or when aggregated with other interested person transactions entered into with the same interested person during the same financial year, is 3.0% or more of K-REIT Asia's latest audited net tangible assets.

The aggregate value of all interested person transactions which are subject to Rules 905 and 906 of the Listing Manual in a particular financial year are disclosed in K-REIT Asia's annual report for the relevant financial year.

#### **Role of the Audit Committee for Interested Party Transactions**

The Manager's internal control procedures are intended to ensure that Interested Party transactions are conducted at arm's length and on normal commercial terms and are not prejudicial to Unitholders. The Manager maintains a register to record

all Interested Party transactions (and the basis, including, where practicable, the quotations obtained to support such basis on which they are entered into) which are entered into by K-REIT Asia.

On a quarterly basis, the management reports to the AC the Interested Party transactions entered into by K-REIT Asia. The Interested Party transactions were reviewed by the internal auditors and all findings were reported during the AC meetings.

The AC reviews all Interested Party transactions to ensure compliance with the internal control procedures and with the relevant provisions of the Listing Manual and the Property Fund Guidelines. The review includes the examination of the nature of the transaction and if necessary, its supporting documents or such other data deemed necessary by the AC. In addition, the Trustee will review such internal audit reports to ascertain that the Property Fund Guidelines have been complied with.

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

## Appendix

### Board Committees – Terms of Reference

#### A. Audit Committee

1. Review the audit plans and reports of the Manager's external auditors and internal auditors, and consider the effectiveness of actions or policies taken by management on the recommendations and observations;
2. Perform independent review of the financial statements;
3. Examine the effectiveness of financial, operating and compliance controls;
4. Nominate external auditors;
5. Review the independence and objectivity of the external auditors annually;
6. Review the nature and extent of non-audit services performed by external auditors;
7. Meet with external and internal auditors, without the presence of management, at least annually;
8. Ensure that the internal audit function is adequately resourced and has appropriate standing with the Manager and K-REIT Asia;
9. Monitor the procedures in place to ensure compliance with applicable legislation, the Listing Manual and the Code on Collective Investment Schemes (including the Property Fund Guidelines);
10. Monitor and review the procedures established to regulate interested party transactions, including ensuring compliance with the provisions of the Listing Manual

relating to "interested person transaction" (as defined therein) and the provisions of the Property Fund Guidelines relating to "interested party transactions" (as defined therein) (both such types of transactions constituting interested party transactions);

11. Investigate any matters within the Audit Committee's terms of reference, whenever it deems necessary; and
12. Report to the Board on material matters, findings and recommendations.

#### B. Nominating and Remuneration Committee

1. Recommend to the Board the appointment/re-appointment of Directors;
2. Annual review of skills required by the Board, and the size of the Board;
3. Annual review of independence of each Director, and to ensure that the Board comprises at least one-third independent Directors;
4. Decide, where a Director has multiple board representation, whether the Director is able to and has been adequately carrying out his duties as Director of the Manager;
5. Decide how the Board's performance may be evaluated, and propose objective performance criteria to assess effectiveness of the Board as a whole and the contribution of each Director;
6. Annual assessment of the effectiveness of the Board as a

whole and individual Directors;

7. Review succession plan;
8. Recommend to the Board a framework of remuneration for Board members and key executives;
9. Determine specific remuneration packages for each Director and the chief executive officer (if the chief executive officer is not an executive director);
10. Decide the early termination compensation (if any) of Directors;
11. Study long-term incentive schemes for Directors and staff;
12. Review the terms, conditions and remuneration of the senior management; and
13. Sub-delegate any of its powers within its terms of reference as listed above, from time to time, as this Committee may deem fit.

Save that a member of this Committee shall not be involved in the deliberations in respect of any remuneration, compensation, options or any form of benefits to be granted to him.

### Nature of Current Directors' Appointments and Membership on Board Committees

Director	Board Membership	Audit Committee Membership	Nominating and Remuneration Committee Membership
Professor Tsui Kai Chong	Chairman and Independent non-executive Director	–	Member
Mr Kevin Wong Kingcheung	Deputy Chairman and non-executive Director	–	–
Mr Tan Swee Yiow	Chief Executive Officer and Director	–	–
Mrs Lee Ai Ming	Independent non-executive Director	Member	–
Mr Lim Poh Chuan	Independent non-executive Director	Member	Chairman
Dr Chin Wei-Li, Audrey Marie	Independent non-executive Director	Chairman	Member

**Code of Corporate Governance 2005**  
**Specific Principles and Guidelines for Disclosure**

Relevant Guideline or Principle	Page Reference in this Report
<b>Guideline 1.3</b> Delegation of authority, by the Board to any Board committee, to make decisions on certain board matters	Page 32
<b>Guideline 1.4</b> The number of board and board committee meetings held in the year, as well as the attendance of every board member at these meetings	Page 33
<b>Guideline 1.5</b> The type of material transactions that require board approval under internal guidelines	Page 33
<b>Guideline 2.2</b> Where the company considers a director to be independent in spite of the existence of a relationship as stated in the Code that would otherwise deem him as non-independent, the nature of the director's relationship and the reason for considering him as independent should be disclosed	Not applicable
<b>Guideline 3.1</b> Relationship between the Chairman and CEO where they are related to each other	Not applicable
<b>Guideline 4.1</b> Composition of nominating committee	Page 34
<b>Guideline 4.5</b> Process for selection and appointment of new directors to the Board	Page 34
<b>Guideline 4.6</b> Key information regarding directors, which directors are executive, non-executive or considered by the nominating committee to be independent	Pages 19 to 22 and 44
<b>Guideline 5.1</b> Process for assessing the effectiveness of the Board as a whole and the contribution of each individual director to the effectiveness of the Board	Pages 35 and 36
<b>Principle 9</b> Clear disclosure of its remuneration policy, level and mix of remuneration, procedure for setting remuneration and link between remuneration paid to directors and key executives, and performance	Pages 36 and 37
<b>Guideline 9.1</b> Composition of remuneration committee	Page 34
<b>Guideline 9.2</b> Names and remuneration of each director. The disclosure of remuneration should be in bands of \$250,000. There will be a breakdown (in percentage terms) of each director's remuneration earned through base/fixed salary, variable or performance-related income/bonuses, benefits-in-kind, and stock options granted and other long-term incentives	Page 37
Names and remuneration of at least the top 5 key executives (who are not also directors). The disclosure should be in bands of \$250,000 and include a breakdown of remuneration	Page 37
<b>Guideline 9.3</b> Remuneration of employees who are immediate family members of a director or the CEO, and whose remuneration exceed \$150,000 during the year. The disclosure should be made in bands of \$250,000 and include a breakdown of remuneration	Page 37
<b>Guideline 9.4</b> Details of employee share schemes	Page 37
<b>Guideline 11.8</b> Composition of audit committee and details of the committee's activities	Pages 38 to 40 and 43
<b>Guideline 12.2</b> Adequacy of internal controls, including financial, operational and compliance controls, and risk management systems	Page 40

# Transforming Asia's Prime Office Landscape

Singapore's skyline will undergo an impressive transformation as its Central Business District (CBD) welcomes an extension spanning 360 hectares of prime land at Marina Bay to cater to rising office demand in Asia.

The expansion of the existing CBD is part of the government's plan to reinvent and rebrand Singapore. This upcoming downtown is set to join the league of successful waterfront business districts such as the Canary Wharf in London and Pudong in Shanghai which have elevated the international profiles of the cities while spurring growth and investment.

The New Downtown at Marina Bay will further entrench Singapore's position as one of Asia's leading financial centres. It will provide some 2.8 million square metres (sm) of prime office space, equivalent to the size of Hong Kong's entire main business district, Central.

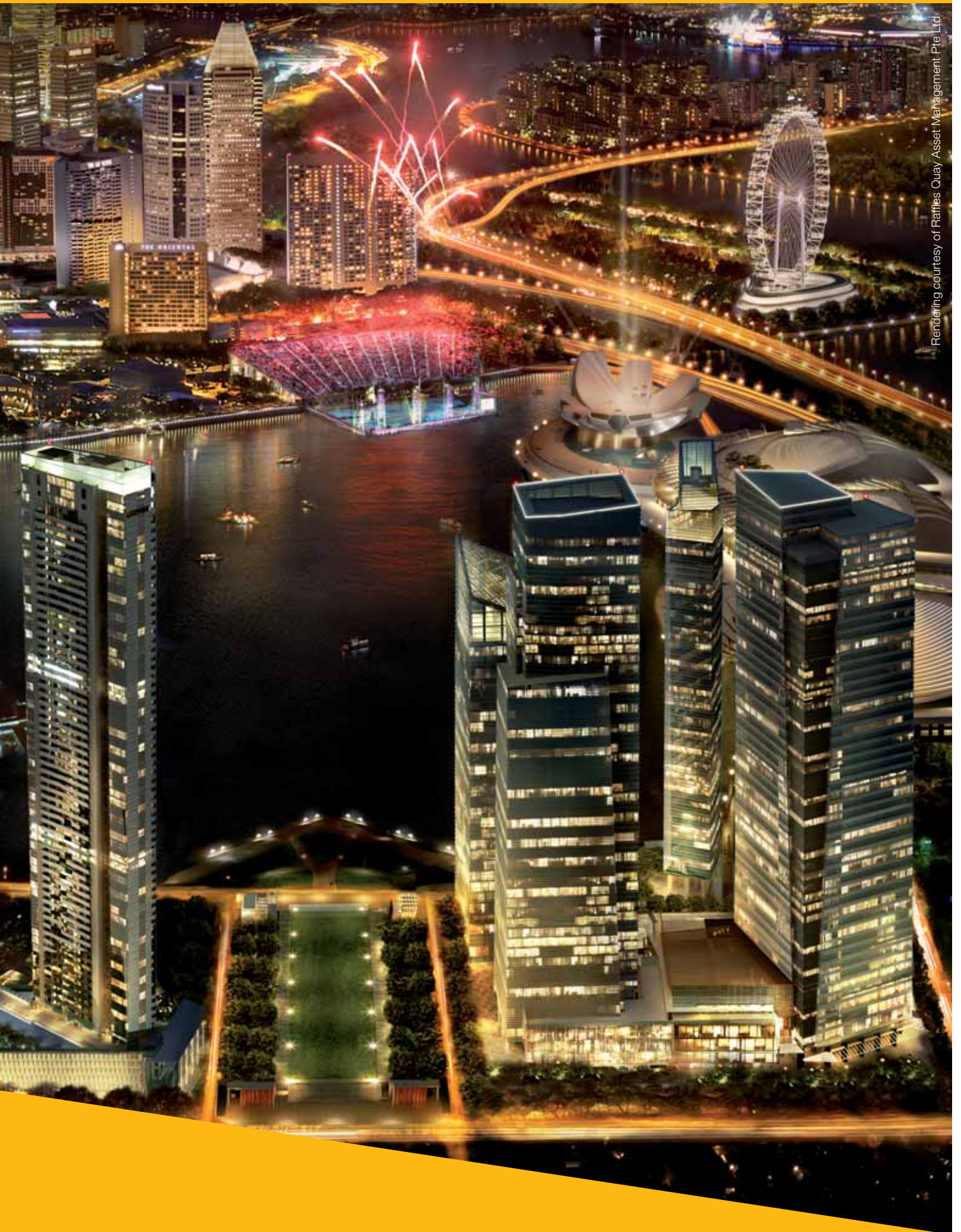
## The Allure of the New Downtown

While it will take more than a decade for the entire area at Marina Bay to be fully developed, a large number of development projects offering exciting and attractive options to live, work and play are underway and expected to be realised within the next three years. These include the high profile Marina Bay Sands Integrated Resort, Gardens by the Bay, Waterfront Promenade and the impressive Marina Bay Financial Centre.

Premium Grade A office developments which are much sought after are fast taking shape in the New Downtown, comprising Marina Bay Financial Centre and Marina View North Tower. Several multinational corporations (MNCs) including BHP Billiton, DBS and Standard Chartered Bank will have addresses in these developments. Located at the gateway of the New Downtown and a stone's throw from these upcoming developments is the FIABCI Prix d'Excellence winner,

The Marina Bay area is envisioned to be a world-class financial and business hub complemented by premier homes and 24/7 entertainment and recreational facilities amidst a green oasis.





Rendering courtesy of Raffles Quay Asset Management Pte Ltd



**Marina Bay attracts blue-chip institutions seeking presence in Asia.**

One Raffles Quay which is home to MNCs such as Ernst & Young and Deutsche Bank.

As at end-2008, the first phase of Marina Bay Financial Centre, a 438,000 sm integrated office-residential-retail development, has about 66% of its office space in Tower One and Tower Two pre-committed even though completion is not expected until 2010. For the second phase of the development which will be completed in 2012, around 55% of the office space in Tower Three is pre-committed at present. Overall, pre-commitment level under Phase One and Two stands at about 61%.

Despite the slowdown in the global economy and the soft office market, there are still businesses which require good-quality and international-grade office space.

Wealth management, in particular, is an industry which continues to grow in Singapore, although this sector of the finance industry remains comparatively small against that in Europe and America. With the firm establishment of the industry and the growing number of high net-worth individuals in the region, it is believed that wealth management as a business sector will grow and increase as an office end-user in the future.

Marina Bay continues to attract global investors who seek to participate in longer-term growth prospects in Asia and find its offer of a live-work-play lifestyle appealing. Private investment in the Marina Bay has reached an impressive \$18 billion in 2008, according to government statistics. On its part, the government has invested approximately \$5.7 billion as at end-2008 and will continue to pump in another \$1 billion for the next 10 to 15 years, to further provide for and maintain Marina Bay's excellent infrastructure connectivity and environment.

Moving into the future, Marina Bay will continue to be the centrepiece of the government's plans to transform Singapore into a global financial and business hub which will attract new investments, visitors and talents.

The Singapore Government is also pulling out all stops to diversify the country beyond a financial hub and establishing multi-hubs in other sectors such as biomedical, pharmaceutical, air transport, telecom and education. These efforts plus the spin-off multiplier effects from the makeover of Marina Bay bode well for demand of office space in the long run.

### **Raising the Bar of Office Standards**

The confirmed supply of new office space in Singapore in the next four years is estimated to be about 8.6 million square feet (sf), according to CB Richard Ellis. This will largely comprise office buildings offering 4.1 million sf of Grade A space in the New Downtown at Marina Bay. The space is equivalent to approximately 61.6% of the current Grade A stock of 6.7 million sf islandwide.

With the pressure from the impending supply in the New Downtown, some landlords of Grade A buildings in the existing CBD areas of Raffles Place, Shenton Way and Tanjong Pagar have begun redeveloping or refurbishing their properties to stay competitive. These include the redevelopment of buildings such as Crosby House, Ocean Building, Overseas Union House and Straits Trading Building.

By 2011, an estimated net lettable area of 3.5 million sf of redeveloped Grade A office space in the current CBD is expected to be completed. This will inevitably result in expectations of higher building standards in the existing CBD.

Other landlords have chosen the option to retrofit their buildings. Properties such as 6 Battery Road, Singapore Land Tower and UOB Plaza II have

undergone retrofitting exercises such as re-cladding of their building façades, creation of space for cafés, installation of multi-media screens as well as upgrading of lifts, car parks, lobbies and other common facilities. Similar exercises are occurring at Equity Plaza, 78 Shenton Way and Euro-Asia Centre as well.

These newly renovated office spaces offer superior specifications and services which meet the changing needs of major MNCs. They are at least on par with the better standards present in regional financial centres such as Hong Kong and Shanghai.

For instance, One Raffles Quay, in which K-REIT Asia owns a one-third interest, was designed with the user in mind. Both Grade A buildings in the twin-tower development boast large floor plates and sophisticated features suited for those requiring trading floors, back-up power and hi-tech data systems. Likewise, the development as a whole is provided with a state-of-the-art system for business continuity, life safety as well as round-the-clock security surveillance. The District Cooling System incorporated within the



**One Raffles Quay, linked to Marina Bay Financial Centre via an underground connection, enjoys access to the upcoming lifestyle hub at Marina Bay.**

building also reduces water and energy consumption, ensuring maximum efficiency and flexibility.

### Enhancing Value through Sustainable Developments

With increasing global focus on environmental and climate change issues, many upcoming commercial developments have now adopted green features in their designs. There is growing interest amongst global businesses to house their operations in sustainable buildings to realise benefits in cost-savings, employee productivity and to the environment.

Some green building features tenants look out for include efficient energy

and water consumption and conservation systems, indoor air quality controls, as well as use of alternative energy sources.

There are also regulations in place by the government to encourage green developments. Landlords and owners of many redeveloped or retrofitted Grade A office buildings in the existing CBD are also encouraged to incorporate such green features.

The emergence of Marina Bay has, therefore, not only sparked off the urban regeneration of the existing CBD but in time to come will play a key role in benchmarking Singapore's office market globally.

### Completed Developments in Marina Bay

- One Marina Boulevard
- Marina South Pier
- Marina Bay Golf Course
- One Raffles Quay
- The Float at Marina Bay
- Singapore Flyer
- Marina Barrage
- Pits and temporary routes of the Marina Bay Street Circuit of the Formula 1 Singapore Grand Prix race

### Future Developments in Marina Bay

- |  |      |
|--|------|
| • Common Services Tunnel   | 2009 |
| • The Sail @ Marina Bay  | 2009 |
| • Double Helix Bridge  | 2009 |
| • The Waterfront Promenade   | 2009 |
| • Art Park   | 2009 |
| • Marina Bay Sands   | 2010 |
| • Marina Bay Financial Centre Phase 1  | 2010 |
| • One Shenton  | 2010 |
| • Gardens at Marina South  | 2010 |
| • International Cruise Terminal  | 2010 |
| • Sports Hub   | 2011 |
| • Marina Bay Financial Centre Phase 2  | 2012 |
| • Mass Rapid Transit Downtown Line Phase 1 and Circle Line Stage 6                                       | 2013 |
| • Marina Coastal Expressway  | 2013 |
| • North-South Line will be extended from Marina Bay MRT Station to the new International Cruise Terminal | 2015 |



## Milestones for Marina Bay

### August 1996

URA unveiled vision for Marina Bay

### November 2004

First residential project, The Sail, was launched

### July 2005

Keppel Land and consortium partners won the tender for 3.55 hectare Business and Financial Centre site

### June 2006

Phase 1 of Common Services Tunnel network and the first District Cooling Plant at Marina Bay was completed

### November 2006

Construction of One Raffles Quay, a Grade A office building, was completed

### December 2006

Keppel Land and partners launched Marina Bay Residences

### February 2007

Construction of Marina Bay Sands Integrated Resort commenced

### March 2007

Construction of new landmark bridge began

### May 2007

First-Ever Oakley City Duathlon took place with more than 1,000 participants

### September 2008

Marina Bay played host to Formula 1 Singapore Grand Prix race

Marina Bay is set to enhance Singapore's business and financial district with its live-work-play appeal.

## Singapore Office Market Review

Singapore continues to be Asia's business hub for multinational corporations.



## Global Economic Crisis

The global financial landscape has changed dramatically in 2008. The impact of the collapse of the US sub-prime mortgage market has spread to the global financial sector. Economic growth in the developed economies has slowed, with several countries already in recession.

Singapore entered into a technical recession in 2008, after its gross domestic product (GDP) declined in both the second and third quarters on quarter-on-quarter terms. Full-year GDP still grew 1.1%, albeit much lower than the 7.8% expansion in 2007. The slower growth rate was due largely to a decline in the manufacturing sector.

For the whole of 2008, total employment increased by 227,200, driven by strong gains earlier in the year. This was slightly lower than the increase of 234,900 in 2007. However, employment growth slowed significantly in the fourth quarter of 2008, as the economic environment worsened. For the whole of 2008, the number of layoffs reached 13,400 – a five-year high and substantially higher than the 7,700 recorded in 2007. Manufacturing formed the bulk of retrenchments, followed by financial services and wholesale trade.

The weak global macroeconomic outlook undoubtedly has negative implications for Singapore's economy going forward, given its exposure to external demand. The government forecast indicates that Singapore's economy will contract by 2.0% to 5.0% in 2009.

## Government Measures Mitigate Impact on Property Sector

To mitigate the impact of the downturn on businesses, the Singapore government announced a \$20.5 billion stimulus package, the most expansionary ever, to help companies and individuals cope with the current economic slowdown.

## Singapore Office Market Statistics

	2008	2007	% Change
Demand (million sf)	<b>0.19</b>	2.07	(90.8)
Net supply (million sf)	<b>1.42</b>	(0.05)	Nm <sup>1</sup>
Average island-wide occupancy rate (%)	<b>91.2</b>	92.7	(1.6)
Average Grade A office occupancy rate (%)	<b>99.1</b>	99.8	(0.7)
Average prime office rental rate (\$ psf/month)	<b>12.90</b>	15.00	(14.0)
Average Grade A office rental rate (\$ psf/month)	<b>15.00</b>	17.15	(12.5)

<sup>1</sup> Nm – Not meaningful

Source: Urban Redevelopment Authority and CB Richard Ellis

In its Budget announcement on 22 January 2009, the government announced that employers will receive a cash grant for each employee on their payrolls in 2009 under a new Jobs Credit Scheme. This move to reduce employers' wage costs and save jobs will help maintain the take-up for office space. In addition, owners of industrial and commercial properties will receive a 40.0% property tax rebate. The government will also cut corporate tax rate from 18.0% to 17.0% to boost competitiveness and lure investments to spur job creation.

In addition, to provide some respite to the office supply market, the government announced the following changes:

- The Confirmed List for the first half 2009 government land sales (GLS) programme will be suspended
- The existing ban on conversion of office space in the Central Business District (CBD) to other uses will be lifted
- There will be a reduced supply of commercial space from government agencies, outside the GLS programme, for the first half of 2009.

Under the GLS programme, only three transitional office parcels were sold in 2008 versus 11 commercial parcels in 2007.

These proactive measures taken by the Singapore Government to reduce the risk of over-supply in the

slowing property market are viewed positively. Likewise, the assurance provided by the government that it is closely monitoring the property market provides an added level of comfort to investors.

## Slowdown in Office Property Demand and Occupancy

The Urban Development Authority (URA) estimated office stock in Singapore as at end-2008 at 71.7 million square feet (sf), an increase from 70.2 million sf in the previous year. Of this stock, office space owned by the private sector accounted for 79.6% at 57.0 million sf while public stock owned by the government, made up the remaining 20.4%. S-REITs own an approximate 6.6 million sf or 11.6% of the private stock.

The Core CBD area, comprising Raffles Place, Marina Centre, Shenton Way and Marina Bay micro-markets, provides approximately 21.4 million sf of office space or 29.9% of the total office stock in Singapore. The net annual supply of island-wide office space in 2008 registered 1.4 million sf, compared to a fall of 0.05 million sf in 2007.

However, the worsening economic outlook in the last quarter of 2008 coupled with the loss of business confidence, have adversely affected office demand. The combined office take-up for the first three quarters of 2008 was 0.6 million sf. However, a negative 0.4 million sf in the last quarter

# Singapore Office Market Review

brought the full year's annual take-up to 0.2 million sf, significantly lower than the 15-year historical average annual take-up of about 1.5 million sf.

Average occupancy rates of island-wide and Grade A office spaces fell to 91.2% and 99.1% respectively as at end-2008 from 92.7% and 99.8% a year ago. Average occupancy rate for the Core CBD area also declined to 95.4% in the fourth quarter of 2008 from 97.6% in the fourth quarter of 2007.

## Moderation of Rentals and Capital Values

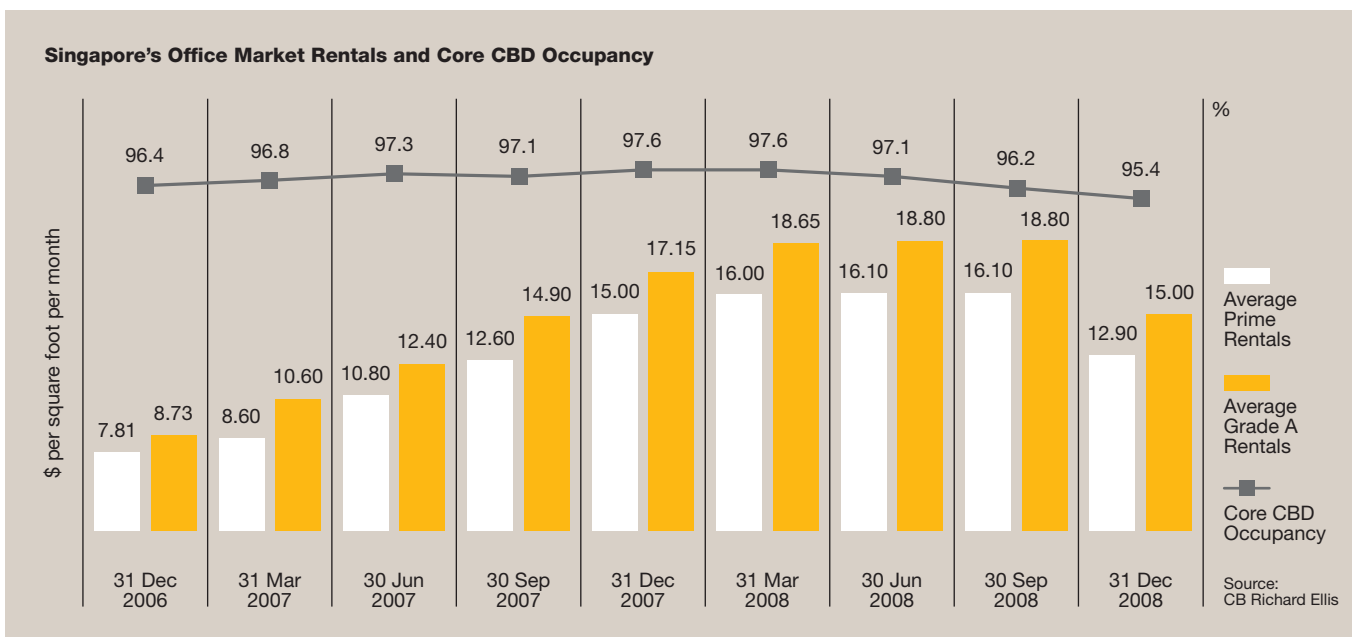
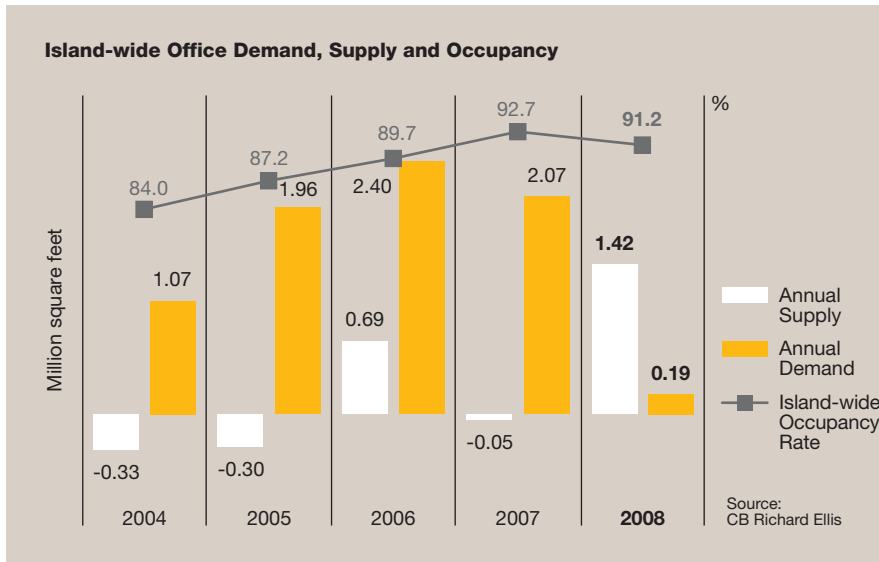
With the slowdown in office demand, prime office rents in the fourth quarter of 2008 averaged \$12.90 per square foot (psf) per month, representing a decline of 14.0% year-on-year from \$15.00 psf after rising for about four years since 2004. Average monthly Grade A office rents fell by 12.5% year-on-year to \$15.00 psf in the fourth quarter of 2008 from \$17.15 psf.

Prime office capital values declined by 16.1% to \$2,600 psf in the fourth quarter of 2008 from \$3,100 psf a year ago, according to CB Richard Ellis (CBRE). Prime office yields rose to 4.90% in the fourth quarter, up from 4.84% a year ago. This was due to a significant drop in prime rents while valuation-based prime capital values did not fall as severely.

In a survey on global office occupancy costs conducted by CBRE in November 2008, Singapore was ranked the world's ninth most expensive office market. Compared to other Asian cities such as Hong Kong, Mumbai and Tokyo, which were all ranked higher, office occupancy costs in Singapore remained more competitive. Since 1996, a comparison by CBRE of prime office rents in Singapore and core central rents in Hong Kong also showed that rents in Singapore have typically been at an average of 23.0% lower in the past 10 years.

## Looking Ahead

The challenging market conditions are expected to continue until confidence is restored in the global economy. With the Singapore economy in recession, more companies will be forced to downsize or postpone expansion plans





while others resort to cheaper office accommodation outside the CBD area. Property consultancy firm, DTZ, has forecast negative office demand for the whole of 2009.

In this uncertain environment, corporations are apprehensive about committing to longer-term leases. As occupiers try to sub-let excess space, “shadow” space, that is, tenanted office space that is currently not used or left vacant, will emerge in the CBD. The overall shadow space is, however, not expected to be significant.

On the other hand, CBRE estimates that about 1.7 million sf of new office space is slated for completion in 2009. Major future supply of private office space between 2009 and 2012 is estimated at 8.6 million sf which is a reduction of about 1.4 million sf from the 9.95 million sf announced earlier in the third quarter of 2008. Given the weakening office demand, some developers of planned office projects have chosen to reduce in scope or delay their projects. More deferments are expected in the future. Deferred developments total about 872,000 sf of new office space and include South Beach, office extensions at Tampines Mall and Funan DigiLife Mall, and the redevelopment of Marina House.

The total supply of net lettable space from 2009 to 2012 is 8.6 million sf, averaging 2.1 million sf a year. About 28.0% of the new supply has been pre-committed, according to CBRE. Supply is expected to be reduced as office owners decide to postpone redevelopment and extension of space.

With office demand contracting over the next few years, rentals and capital values are expected to ease further in 2009. However, mitigating factors including the various government measures and the reduced office supply will continue to support the office market.

### **Singapore Remains a Key Business Destination**

Singapore will continue to do well in the longer term as its economic prospects and fundamentals remain strong. The city-state remains a key investment market in Asia. Singapore was rated as one of the top four places in the world to invest in for the next five years, according to accounting firm, KPMG, in their October 2008 survey of 260 leading global firms across 12 economies including China, the United States and India.

In 2008, Singapore retained its top ranking for the third year in a row as the easiest place in the world to do business, according to a report by the World Bank. The 2008 MasterCard Worldwide Centers of Commerce Index also ranked Singapore as the second most influential centre in Asia and the fourth most influential in the world.

Furthermore, Singapore's diversification beyond a financial hub and establishment of multi-hubs in various industry sectors such as biomedical, pharmaceutical, air transport, and education, will help to prop up office demand in the longer term.

Significant opportunities lie ahead, despite some short-term challenges. In the medium-term, the two integrated resorts, Marina Bay Sands and Resorts World at Sentosa along with the new Marina Bay Financial Centre will redefine Singapore's downtown and CBD, which is expected to have a positive impact on office space in the Marina Bay area.



Despite challenging market conditions, Singapore's diversification in various industry sectors will encourage office demand in the long run.



### **A Sombre Year for S-REITS**

In 2008, one new REIT was listed, bringing the number of listed Singapore real estate investment trusts (S-REITs) to 21. The total market capitalisation of S-REITs shrank by 53.7% to about \$12.9 billion from \$27.7 billion in the previous year, as the fourth quarter capped off a sombre year for global equity markets and the S-REIT sector. In a comparison of annual total returns of Asian REITs, losses in the REIT market ranged from 14.8% in Malaysia to 56.1% in Singapore in 2008.

The Singapore stock market ended the year down 49.2% while the S-REIT index fell 59.0% on concerns of refinancing risks and softening rentals. Investors were also wary of REITs that might embark on capital raisings. Due to higher perceived risks, REITs with foreign-based assets and limited sponsorship bore the brunt of the sell-off.

With the broad market sell-off and sector re-rating, the average distribution yield of S-REITs increased to 12.0% as at end-2008 from 4.3% as at end-2007. This was 9.9 percentage

### Asian REITs' Annual Total Returns

REITs	2008	2007	2006	2005	2004
Singapore	<b>-56.1%</b>	2.8%	57.9%	22.2%	42.2%
Japan	<b>-49.0%</b>	-2.3%	29.7%	13.5%	30.7%
Hong Kong	<b>-28.9%</b>	10.4%	9.8%	2.0%	N/A
Malaysia	<b>-14.8%</b>	17.8%	N/A	N/A	N/A

Source: Standard & Poor's/Citigroup

points above the 10-year government bond yield of about 2.1%, compared attractively with the average yield gap of 2.6 percentage points since January 2003 and a yield gap of 4.4 percentage points during the previous downturn in first half of 2003.

S-REITs are also trading at vast discounts to their net asset value (NAV). The weighted average discount to NAV is steepest for office REITs at 68.3% versus 53.0% for hospitality REITs, 45.0% for retail REITs and 37.9% for industrial REITs as at 31 December 2008.

The lacklustre performance of S-REITs sparked off management changes and sector consolidation during the year, with the sale of a stake in Allco Commercial REIT and the entire stake in its manager to Frasers Centrepoint. Malaysian conglomerate, YTL Corporation, also acquired interests in Macquarie Prime REIT and its manager and has renamed it as Starhill Global REIT in October. In August, National Australia Bank and Oxley Group formed a joint venture to take a majority stake in the manager of Cambridge Industrial Trust.

The dislocation of the global credit markets has driven up the cost of capital, with credit spreads widening significantly in 2008. Given the tight credit conditions, some REIT managers have postponed their acquisition and asset enhancement plans as capital preservation and financial flexibility take precedence. The REITs' current high trading yields also present a hurdle to making yield-accretive acquisitions.

With no distinct signs of improvement in the credit environment, some S-REITs had to seek other routes such as rights issues and private placements to re-capitalise and address their refinancing issues. In January 2009, in a bid to conserve cash, Saizen REIT proposed a distribution reinvestment plan where dividends are paid out in the form of units instead of cash. It was the first S-REIT to propose such a scheme. In the same month, Ascendas REIT announced an equity fund-raising exercise to raise approximately \$400 million to fund development projects and reduce its aggregate leverage. CapitaMall Trust has also announced a rights issue in February 2009 and plans to use the proceeds to mainly repay almost \$1 billion of debt maturing in 2009.

#### Proactive Government Initiatives

In a move that could encourage S-REITs to seek equity capital, the Singapore Exchange, in January 2009, announced measures to increase the efficiency and flexibility in conducting rights issues. The key changes will reduce the process by one week and allow sub-underwriting arrangements by major shareholders.

In February 2009, the Singapore Exchange announced additional measures to make it easier for listed firms to raise cash. The moves include allowing firms to issue and sell shares via private placements at a discount of up to 20.0% off the market price, compared with the previous limit of 10.0%.

To allay market concerns over asset write-downs, the Monetary Authority of Singapore (MAS) announced that S-REITs will not be considered to have breached leverage limits should their aggregate leverage increase due to declines in property values. In addition, MAS also clarified that refinancing of existing debt by a REIT is not to be construed as incurring additional borrowings. This would ease the pressure on highly-g geared REITs to recapitalise.

Some S-REIT managers have also urged the government to reduce the minimum pay-out ratio to unitholders from the current 90.0% while still allowing the REITs to enjoy tax concessions. The MAS has, however, turned down these requests after seeking feedback from a gamut of parties – including REIT managers, bankers, lawyers and unitholders. Furthermore, the MAS plans to solicit feedback on a proposed requirement for S-REITs to hold Annual General Meetings to promote good corporate governance.

#### A Critical Year Ahead

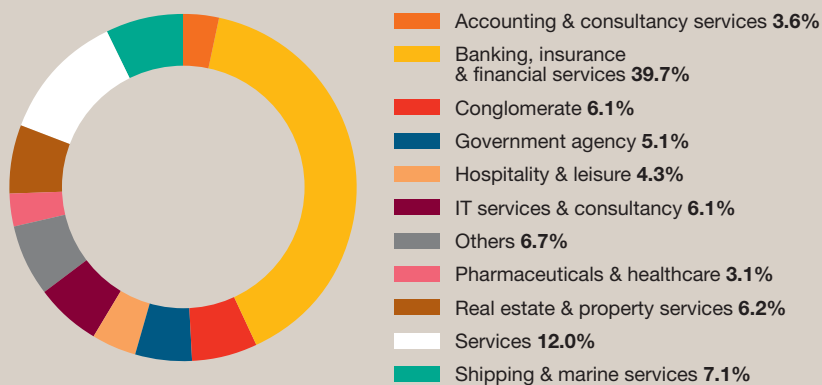
Refinancing risks may continue to hamper S-REITs in 2009 when a significant \$4 billion worth of debt in the sector is expected to mature. The availability and rising costs of debt and equity also continue to present challenges for the sector.

As such, some S-REITs may seek to de-leverage their balance sheets via equity issuances, reduction of dividend pay-outs, introduction of distribution reinvestment plans or asset sales.

Looking forward, investors will focus on REITs with good quality underlying assets, resilient cash flows and capable management teams. Those with relatively little near-term refinancing worries and strong sponsors will also be attractive to investors.



**Tenant Business Sector Analysis by Gross Rent**  
for the month of December 2008

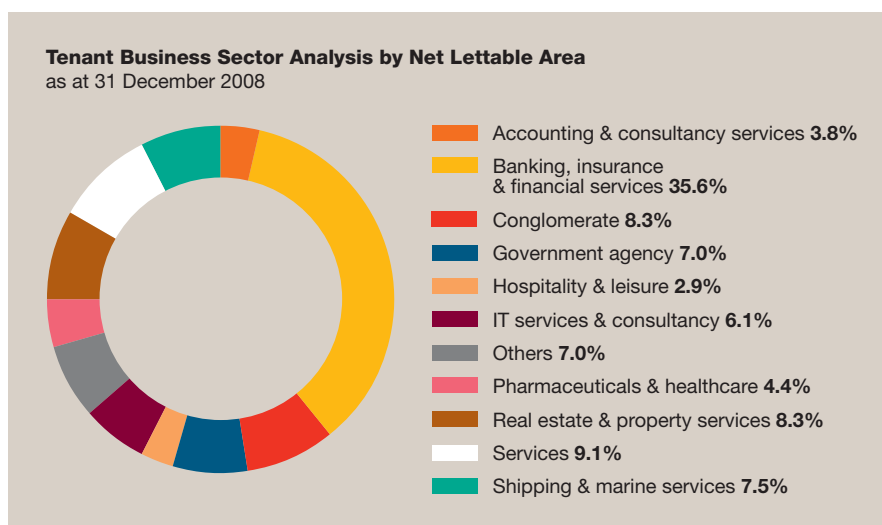


**Tenant Business Sectors**

As at 31 December 2008, K-REIT Asia had 118 tenants from multifarious business sectors occupying 99.0% of its net lettable area (NLA) of 1.23 million square feet (sf). The Manager aims to maintain a diverse tenant business sector profile to mitigate the risk of over-reliance on any single business sector. All information relating to portfolio NLA and gross rental income in this section includes one-third of One Raffles Quay's NLA and gross rental income.

Tenants in the banking, insurance and financial services sector were the largest users of space and also

accounted for the highest share of K-REIT Asia's gross rental income in December 2008 if one-third of One Raffles Quay's gross rental income were taken into account. These tenants, most of whom have signed long-term leases of more than five years, are predominantly located in One Raffles Quay. This sector occupies 35.6% of the leased NLA and contributed some 39.7% of K-REIT Asia's total gross rental income. In second position was the services sector which contributed 12.0% of the gross rental income and occupied 9.1% of the portfolio's leased NLA as at 31 December 2008.



### Portfolio Top Ten Tenants

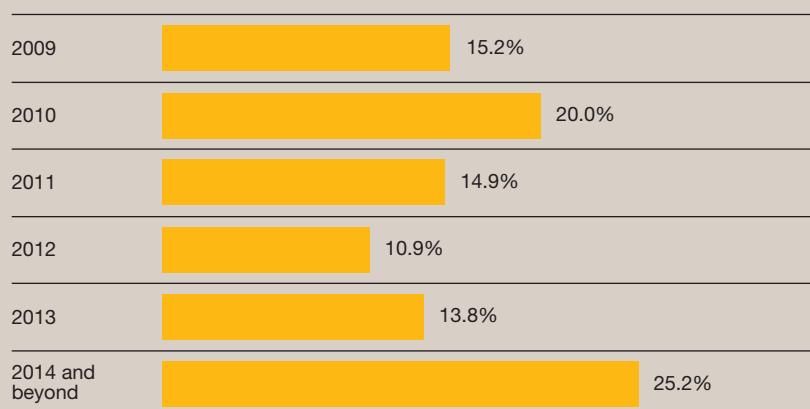
Ranking	Building <sup>1</sup>	Tenant	% of Gross Rent <sup>2</sup>	% of Leased Net Lettable Area <sup>3</sup>
1	ORQ	Deutsche Bank Aktiengesellschaft	7.0	7.7
2	ORQ	UBS AG	5.2	6.3
3	BJT	International Enterprise Singapore	5.0	7.0
4	ORQ	ABN AMRO Asia Pacific	4.6	5.2
5	GE	GE Pacific	4.5	6.5
6	BJT	Intercontinental Hotels Group (Asia Pacific)	4.2	2.8
7	PT	The Executive Centre	4.2	1.8
8	ORQ	Credit Suisse	3.9	3.0
9	ORQ	Ernst & Young	3.6	3.8
10	BJT	Prudential Assurance Company Singapore	3.5	1.7
<b>Total</b>			<b>45.7</b>	<b>45.8</b>

<sup>1</sup> ORQ: One Raffles Quay; BJT: Bugis Junction Towers; GE: GE Tower; PT: Prudential Tower

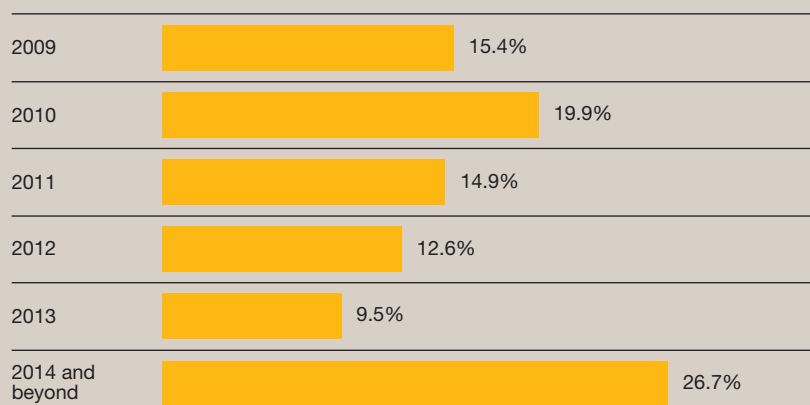
<sup>2</sup> Based on gross rental income for the month of December 2008.

<sup>3</sup> Based on leased net lettable area as at 31 December 2008.

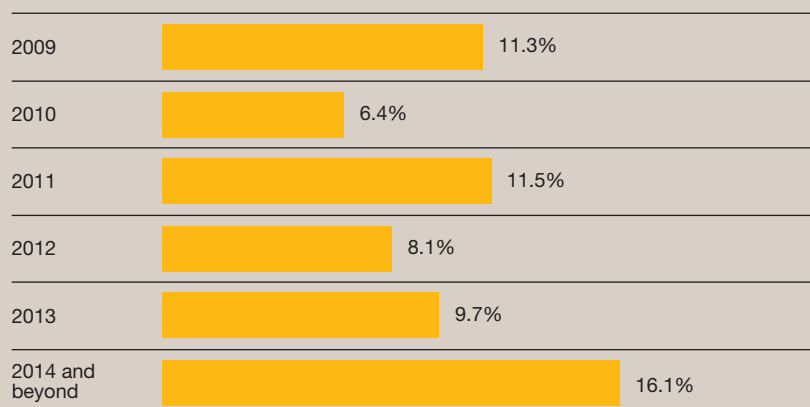
**Portfolio Lease Expiry Profile by Gross Rent**  
for the month of December 2008



**Portfolio Lease Expiry Profile by % of Total Net Lettable Area**  
as at 31 December 2008



**Rent Review Profile by % of Total Net Lettable Area**  
as at 31 December 2008



**Tenant Diversification**

The largest tenant in terms of gross rental income and occupied NLA as at 31 December 2008 was Deutsche Bank Aktiengesellschaft at One Raffles Quay. Deutsche Bank Aktiengesellschaft contributed 7.0% of total gross rental income and occupied 7.7% of the portfolio's leased NLA as at 31 December 2008. K-REIT Asia's top 10 tenants contributed approximately 45.7% of the total gross rental income for the month of December 2008 and occupied approximately 45.8% of the NLA.

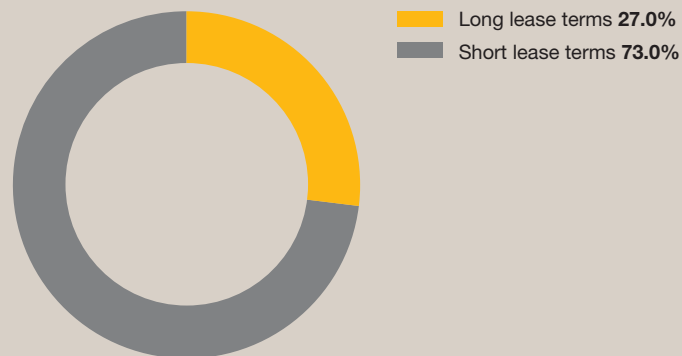
**Portfolio Lease Expiry Profile**

K-REIT Asia's lease expiry profile is well spread out over the years. Between 2009 and 2013, there is no single year in which the total lease expiry exceeds 20.0% of the total gross rental income or NLA. In terms of gross rental income, approximately 15.2% and 20.0% of the leases are due to expire in 2009 and 2010 respectively. In terms of NLA, approximately 15.4% and 19.9% of the leases are due to expire in 2009 and 2010 respectively.

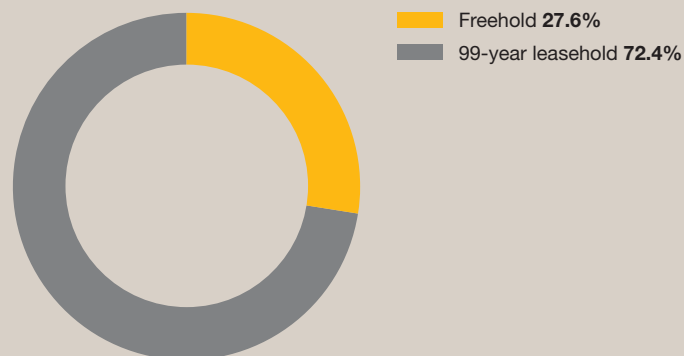
**Portfolio Rent Review Profile**

Based on the portfolio's NLA, approximately 11.3% and 6.4% of the leases are due for rent reviews in 2009 and 2010 respectively. These are key tenants who have committed to long-term leases ranging from 5 to 15 years. Such leases are typically structured with rent reviews from between every two to five years at which time, rentals are adjusted to the then prevailing market rental rate.

**Portfolio's Net Lettable Area (Leased) by Lease Term**  
as at 31 December 2008



**Portfolio Analysis by Tenure**



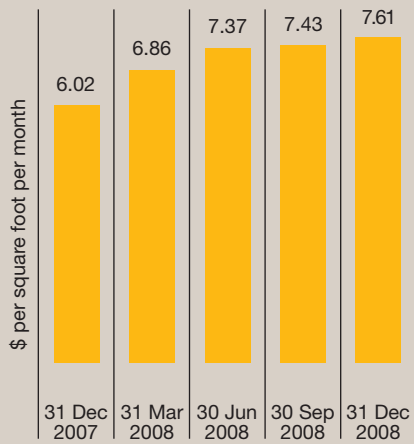
**Weighted Average Lease Term to Expiry**

K-REIT Asia's portfolio comprises a good mixture of long lease terms and short lease terms. The weighted average lease term to expiry of the portfolio by NLA is 5.6 years.

Seven of the 118 tenants in the portfolio were long-term leases with at least five years to expiry as at 31 December 2008. They accounted for approximately 27.0% of the portfolio's leased NLA as at 31 December 2008.



### Rising Rental Rates<sup>1</sup>



<sup>1</sup> Rental rates include income support for one-third interest in One Raffles Quay Pte Ltd.

### Committed Occupancy

As at 31 December 2008, K-REIT Asia's portfolio achieved a committed occupancy of 99.0%, above Core Central Business District (CBD) occupancy of 95.4% and Fringe CBD occupancy of 97.2% (Source: CB Richard Ellis).

### Tenure Analysis

Of the total value of K-REIT Asia's assets under management as at 31 December 2008, 27.6% is derived from assets located on freehold land.

### Rising Rental Rates

Including income support from the one-third interest in One Raffles Quay Pte Ltd, K-REIT Asia's average gross rental of the portfolio is 26.4% higher at \$7.61 per square foot (psf) per month, as compared to \$6.02 in December 2007. Excluding One Raffles Quay Pte Ltd, the average gross rental of K-REIT Asia's initial properties increased by 30.8% to \$6.08 psf per month as compared to \$4.65 as at end-2007.

# Portfolio at a Glance

## Property Portfolio Key Statistics

	As at 31 December 2008	As at 31 December 2007
Net lettable area	<b>114,427 sm</b> <b>(1,231,689 sf)</b>	114,425 sm (1,231,673 sf)
Committed occupancy	<b>99.0%</b>	99.9%
Valuation	<b>\$2,102.0 million</b>	\$2,102.0 million
Number of tenants	<b>118</b>	125
Number of car park lots	<b>1,001</b>	1,001



## Strategic Locations

K-REIT Asia's commercial office properties are located within or near Singapore's Central Business District.

One of the assets, One Raffles Quay, is strategically positioned adjacent to Raffles Place and is the gateway to Marina Bay, Singapore's new financial district and downtown.

All the properties are also conveniently located in close proximity to MRT stations.

## Property Information

Property	Prudential Tower Property	Keppel Towers and GE Tower	Bugis Junction Towers	One Raffles Quay <sup>1</sup>
<b>Location</b>	30 Cecil Street, Singapore	10 Hoe Chiang Road and 240 Tanjong Pagar Road, Singapore	230 Victoria Street, Singapore	1 Raffles Quay, Singapore
<b>Ownership interest</b>	44.4% of the strata area of the building	100.0%	100.0%	33.3% interest
<b>Net lettable area</b>	10,074 sm (108,439 sf)	40,002 sm (430,582 sf)	22,991 sm (247,475 sf)	41,360 sm (445,193 sf)
<b>Title</b>	Leasehold estate of 99 years commencing 15 January 1996	Estate in fee simple	Leasehold estate of 99 years commencing 10 September 1990	Leasehold estate of 99 years commencing 13 June 2001
<b>Committed occupancy as at 31 December 2008</b>	92.3%	99.2%	100.0%	100.0%
<b>Purchase price (on acquisition)</b>	\$117.7 million	\$353.5 million	\$159.5 million	\$941.5 million
<b>Acquisition date</b>	26 April 2006	26 April 2006	26 April 2006	10 December 2007
<b>Valuation as at 31 December 2008</b>	\$224.0 million (\$2,066 psf)	\$580.0 million (\$1,347 psf)	\$313.0 million (\$1,265 psf)	\$985.0 million (\$2,213 psf)
<b>Number of tenants</b>	11	66	9	32 <sup>2</sup>
<b>Number of car park lots<sup>3</sup></b>	–	288	–	713 <sup>2</sup>
<b>FY2008 property income</b>	\$10.5 million	\$25.7 million	\$16.5 million	–
<b>FY2008 net property income</b>	\$8.3 million	\$18.9 million	\$12.4 million	–
<b>FY2008 income contribution<sup>4</sup></b>	–	–	–	\$44.4 million

<sup>1</sup> The information shown is related to K-REIT Asia's one-third interest in One Raffles Quay Pte Ltd and not as a whole.

<sup>2</sup> For the entire One Raffles Quay development.

<sup>3</sup> Excludes car park lots owned and managed by the respective management corporations.

<sup>4</sup> Comprises income support, interest income and dividend income.

# Operations Review

## One Raffles Quay

Designed for maximum efficiency and flexibility, One Raffles Quay is an iconic commercial development housing blue-chip companies.

### Key Property Statistics<sup>1</sup> as at 31 December 2008

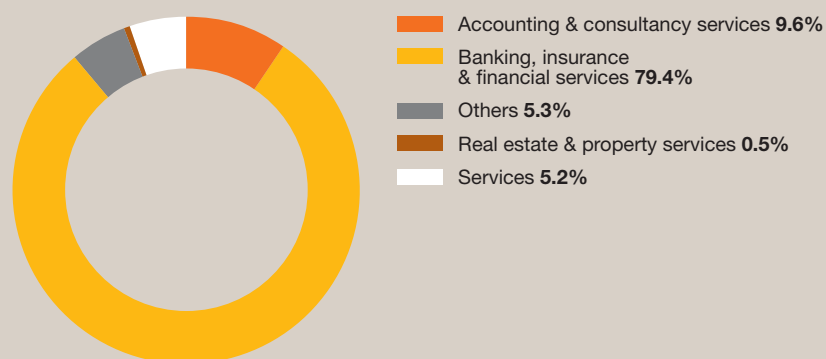
Location	1 Raffles Quay, Singapore
Ownership interest	33.3%
Net lettable area	41,360 sm (445,193 sf)
Title	Leasehold estate of 99 years commencing 13 June 2001
Committed occupancy	100.0% <sup>2</sup>
Purchase price (on acquisition)	\$941.5 million
Valuation as at 31 December 2008	\$985.0 million (\$2,213 psf)
Number of tenants	32 <sup>2</sup>
Number of car park lots	713 <sup>2</sup>
FY2008 income contribution <sup>3</sup>	\$44.4 million

<sup>1</sup> The information shown is related to K-REIT Asia's one-third interest in One Raffles Quay and not as a whole.

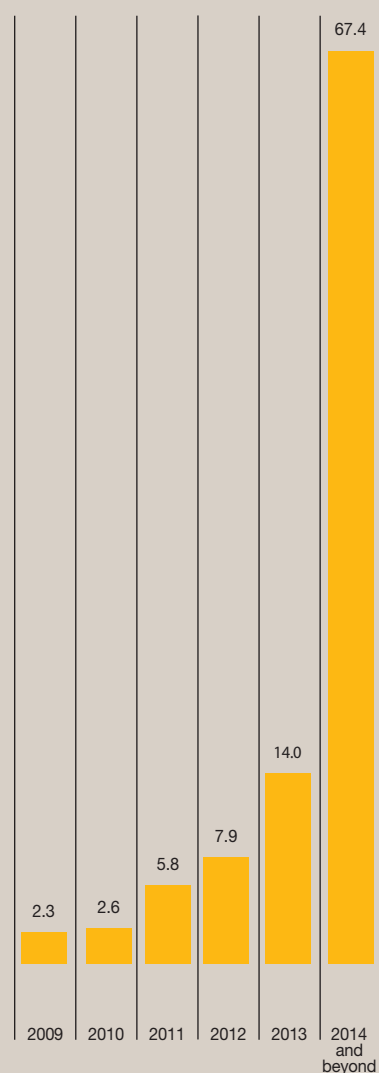
<sup>2</sup> For the entire One Raffles Quay development.

<sup>3</sup> Comprising income support, interest income and dividend income.

### Tenant Business Sector Analysis by Gross Rent for the month of December 2008



### Lease Expiry Profile by Gross Rent (%) for the month of December 2008



Weighted average lease term to expiry: 7.8 years

### One Raffles Quay

One Raffles Quay is a prestigious landmark commercial development located at Marina Bay, the gateway to Singapore's new business and financial district. K-REIT Asia owns a one-third interest in One Raffles Quay Pte Ltd, the holding company which owns One Raffles Quay.

The development comprises a 50-storey North Tower, a 29-storey South Tower and a direct underground link to Raffles Place MRT station. It has a net lettable area of 1.3 million square feet as at 31 December 2008, making it one of the largest commercial office developments in Singapore. There are 713 car park lots in the development.

One Raffles Quay's tenants include well-known banking and financial institutions such as Deutsche Bank Aktiengesellschaft, UBS AG, ABN AMRO Asia Pacific, Credit Suisse and international accounting firm, Ernst and Young.

The buildings are designed for maximum efficiency and flexibility. The development utilises the new District Cooling Plant which provides centralised and efficient chilled water for itself and adjoining sites. Other resource-efficient features incorporated in One Raffles Quay include devices that optimise air-conditioning control, energy-efficient lighting systems, motion sensors, recycling of

condensate water for irrigation, and an air flushing system to improve indoor air quality.

One Raffles Quay has won several awards for embodying excellence in all aspects of development.

The awards are:

- FIABCI Prix d'Excellence Award, Office category (2008)

- Design and Engineering Safety Excellence Award 2008 by the Building and Construction Authority of Singapore
- Honorable Nominee for Best Tall Building Award 2008 by the Council on Tall Buildings and Urban Habitat
- Finalist for ULI Awards for Excellence 2007 by the Urban Land Institute



One Raffles Quay has won several awards for excellence.

### Top Five Tenants

Ranking	Tenant	% of Gross Rent <sup>1</sup>
1	Deutsche Bank Aktiengesellschaft	18.9
2	UBS AG	13.8
3	ABN AMRO Asia Pacific	12.4
4	Credit Suisse	10.4
5	Ernst & Young	9.6

<sup>1</sup> Based on the gross rent for the month of December 2008.

# Operations Review

## Prudential Tower Property

A prime office development reputed for its high quality specifications and finishes.

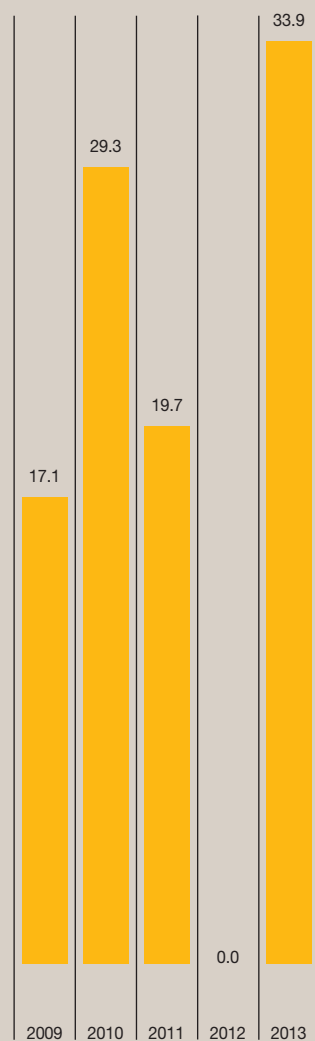
### Key Property Statistics as at 31 December 2008

Location	30 Cecil Street, Singapore
Ownership interest	44.4% of total strata area
Net lettable area <sup>1</sup>	10,074 sm (108,439 sf)
Title	Leasehold estate of 99 years commencing 15 January 1996
Committed occupancy	92.3%
Purchase price (on acquisition)	\$117.7 million
Valuation as at 31 December 2008	\$224.0 million (\$2,066 psf)
Number of tenants	11
Number of car park lots <sup>2</sup>	–
FY2008 property income	\$10.5 million
FY2008 net property income	\$8.3 million

<sup>1</sup> This represents 44.4% of the strata area of Prudential Tower.

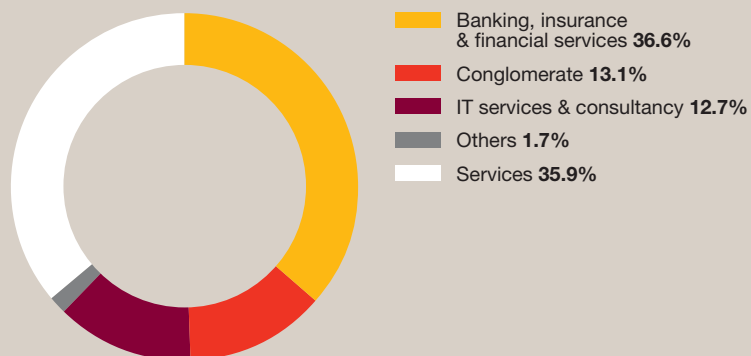
<sup>2</sup> Excludes car park lots owned and managed by the management corporation.

### Lease Expiry Profile by Gross Rent (%) for the month of December 2008



Weighted average lease term to expiry: 2.1 years

### Tenant Business Sector Analysis by Gross Rent for the month of December 2008



### Top Five Tenants

Ranking	Tenant	% of Gross Rent <sup>1</sup>
1	The Executive Centre	33.9
2	KBC Bank N.V. (Singapore Branch)	15.6
3	The McGraw-Hill Companies, Inc.	13.1
4	Prudential Fund Management Services	10.1
5	Convergys Singapore	10.1

<sup>1</sup> Based on the gross rent for the month of December 2008.

### Prudential Tower Property

Prudential Tower is a 30-storey Grade A office building situated in Raffles Place, the heart of Singapore's financial district. It is located at the junction of Church Street and Cecil Street, within a five-minute walk from the Raffles Place MRT station. K-REIT Asia owns approximately 44.4% of the strata area of the building.

Prudential Tower is one of the few office developments in Singapore, which has won the prestigious FIABCI Prix d'Excellence Award (2003) in view of its high-quality building specifications and finishes.

Net lettable area for the property stands at 108,439 square feet as at 31 December 2008. There are 181 car park lots located on the second to ninth storeys. These lots are common property owned by the management corporation of Prudential Tower.

Current anchor tenants are The Executive Centre, KBC Bank N.V. (Singapore Branch) and The McGraw-Hill Companies.



Prudential Tower enjoys the distinction of being one of the few office developments in Singapore to win a FIABCI Award.

# Operations Review

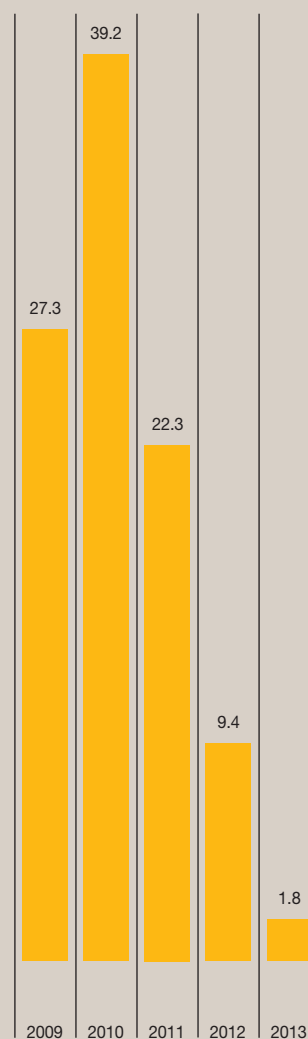
## Keppel Towers and GE Tower

Prime office buildings strategically located in Singapore's Central Business District.

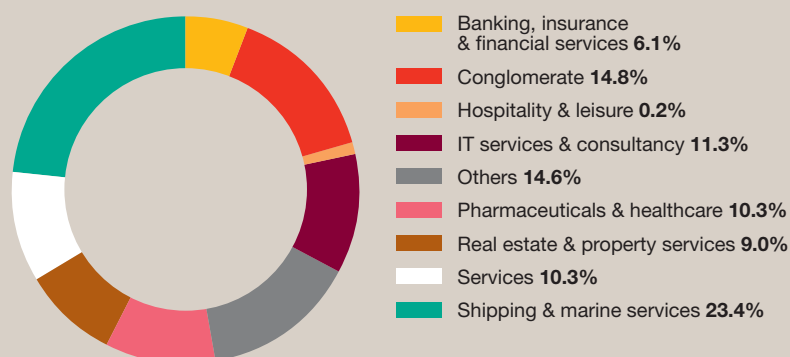
### Key Property Statistics as at 31 December 2008

Location	10 Hoe Chiang Road and 240 Tanjong Pagar Road, Singapore
Ownership interest	100.0%
Net lettable area	40,002 sm (430,582 sf)
Title	Estate in fee simple
Committed occupancy	99.2%
Purchase price (on acquisition)	\$353.5 million
Valuation as at 31 December 2008	\$580.0 million (\$1,347 psf)
Number of tenants	66
Number of car park lots	288
FY2008 property income	\$25.7 million
FY2008 net property income	\$18.9 million

### Lease Expiry Profile by Gross Rent (%) for the month of December 2008



### Tenant Business Sector Analysis by Gross Rent for the month of December 2008



Weighted average lease term to expiry: 1.5 years



### Keppel Towers and GE Tower

Keppel Towers and GE Tower are prime office buildings located along Hoe Chiang Road and Tanjong Pagar Road, in close proximity to Tanjong Pagar MRT station.

The 27-storey Keppel Towers and 13-storey GE Tower have a combined net lettable area of 430,582 square feet as at 31 December 2008.

Keppel Towers and GE Tower sit on a rare freehold site in the Central Business District. Amenities in the development include 288 car park lots located on the second and third storeys, as well as a roof top garden on the fourth storey.

As one of the largest office developments in the Tanjong Pagar area with efficient floor plates and well-managed facilities, Keppel Towers and GE Tower have attracted good tenants such as GE Pacific, Seadrill Management, Aedas and ARUP Singapore.



Tenants continue to be impressed by the efficient management of Keppel Towers and GE Tower.

#### Top Five Tenants

Ranking	Tenant	% of Gross Rent <sup>1</sup>
1	GE Pacific	14.8
2	Seadrill Management	6.0
3	Aedas	4.1
4	ARUP Singapore	3.7
5	V.Ships (Asia)	3.5

<sup>1</sup> Based on the gross rent for the month of December 2008.

# Operations Review

## Bugis Junction Towers

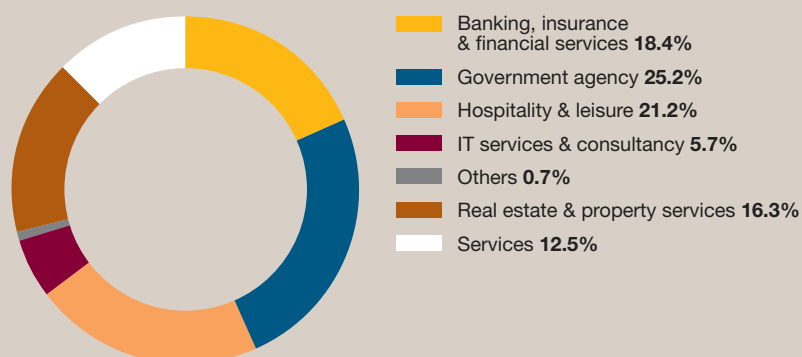
An award-winning premier office tower reflecting an innovative and unique interpretation of urban development.

### Key Property Statistics as at 31 December 2008

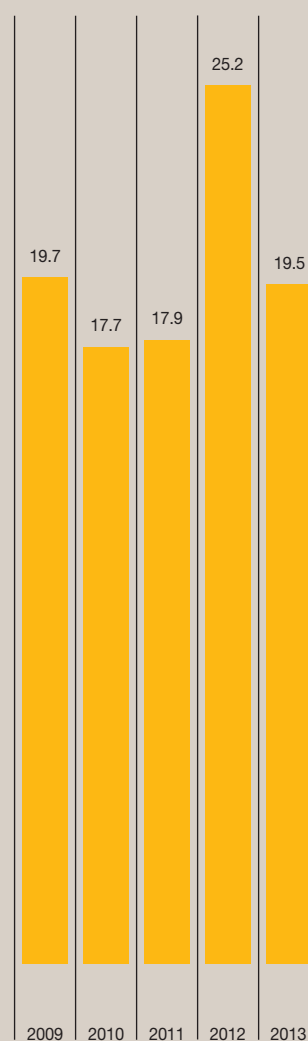
Location	230 Victoria Street, Singapore
Ownership interest	100.0%
Net lettable area	22,991 sm (247,475 sf)
Title	Leasehold estate of 99 years commencing 10 September 1990
Committed occupancy	100.0%
Purchase price (on acquisition)	\$159.5 million
Valuation as at 31 December 2008	\$313.0 million (\$1,265 psf)
Number of tenants	9
Number of car park lots <sup>1</sup>	–
FY2008 property income	\$16.5 million
FY2008 net property income	\$12.4 million

<sup>1</sup> Excludes car park lots owned and managed by the management corporation.

### Tenant Business Sector Analysis by Gross Rent for the month of December 2008



### Lease Expiry Profile by Gross Rent (%) for the month of December 2008



Weighted average lease term to expiry: 2.5 years

### Bugis Junction Towers

Bugis Junction Towers is a 15-storey office tower located along Victoria Street and is directly linked to the Bugis MRT station which will be an interchange with the future Downtown MRT Line.

It is part of the integrated mixed-use development, Bugis Junction, which also comprises Bugis Junction retail mall and the five-star InterContinental Singapore Hotel.

The property has a net lettable area of 247,475 square feet as at 31 December 2008. It houses major tenants such as International Enterprise Singapore, InterContinental Hotels Group (Asia Pacific) and Keppel Land International.

There are 648 parking lots located at two basement levels to serve the integrated development. These lots are common property owned by the management corporation of Bugis Junction.

Bugis Junction has won several awards for reflecting an innovative and modern interpretation of urban development. Some of the awards include:

- Singapore Institute of Architects' Award for Urban Design Category in 1998
- Honourable Mention Award for Mixed Developments Category at Singapore Institute of Architects Architectural Design Awards 1995
- Finalist for the prestigious FIABCI Prix d'Excellence (2001) competition

### Top Five Tenants

Ranking	Tenant	% of Gross Rent <sup>1</sup>
1	International Enterprise Singapore	25.2
2	InterContinental Hotels Group (Asia Pacific)	21.2
3	Prudential Assurance Company Singapore	17.3
4	Keppel Land International	16.3
5	JV Fitness	10.9

<sup>1</sup> Based on the gross rent for the month of December 2008.



Bugis Junction Towers is part of an award-winning integrated mixed-use development.

## Financial Review

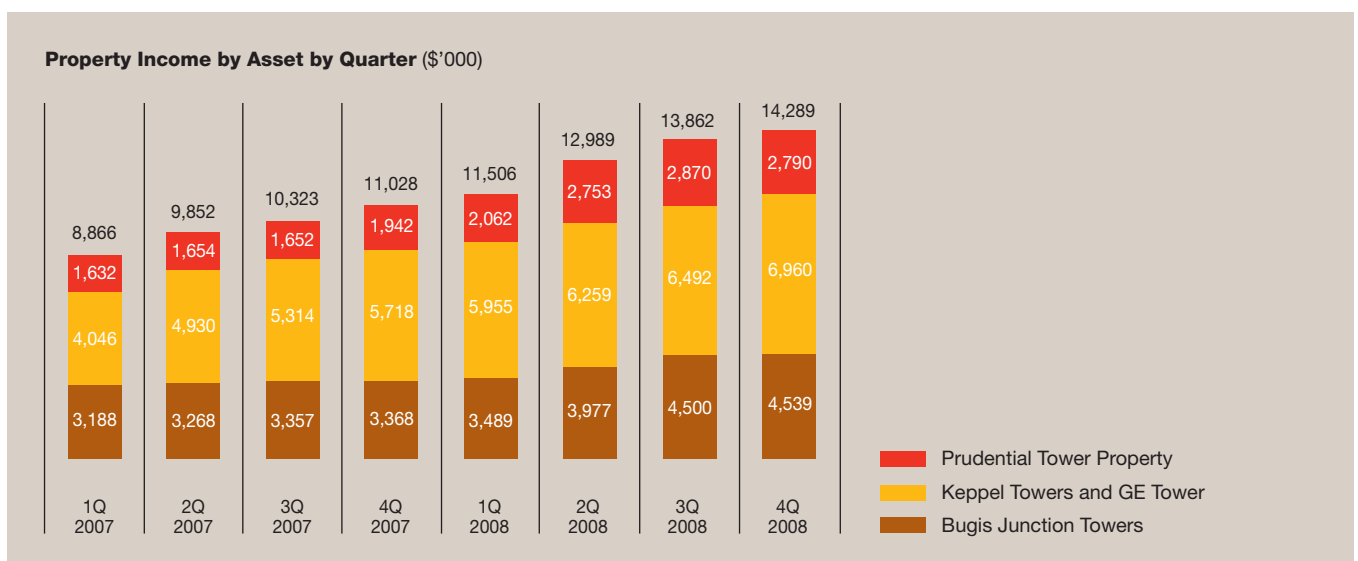
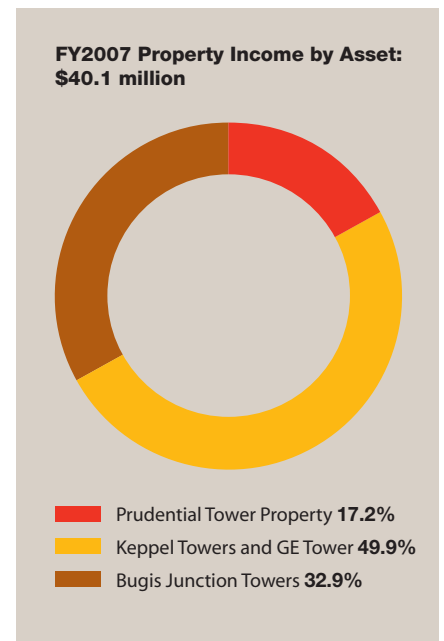
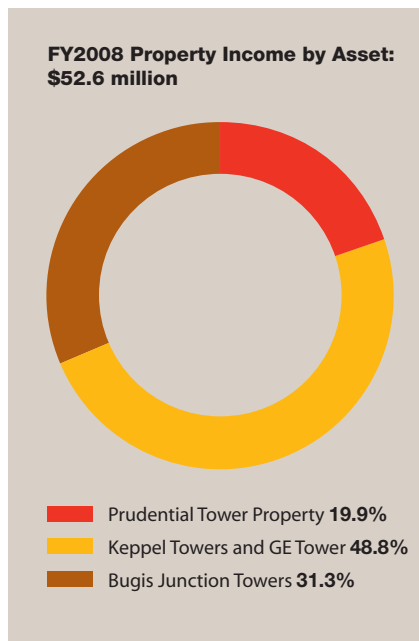
<b>Overview</b>			
	<b>FY2008</b>	<b>FY2007</b>	<b>Change</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>%</b>
Property income	<b>52,646</b>	40,069	31.4
Property expenses	<b>(12,987)</b>	(11,807)	10.0
Net property income	<b>39,659</b>	28,262	40.3
Investment and interest income	<b>48,644</b>	2,632	Nm <sup>2</sup>
Other operating expenses	<b>(64,925)</b>	(18,205)	256.6
Net income	<b>23,378</b>	12,689	84.2
Net gain on revaluation of investment properties	<b>7,000</b>	432,964	(98.4)
Income tax expense	<b>(2,910)</b>	(163)	Nm <sup>2</sup>
Total return after tax	<b>27,468</b>	445,490	(93.8)
Income available for distribution	<b>58,182</b>	21,812	166.7
Distributable income <sup>1</sup>	<b>58,182</b>	21,812	166.7

<sup>1</sup> The distributable income to Unitholders is based on 100% of the income available for distribution to Unitholders.

<sup>2</sup> Nm – Not meaningful

### Property Income

Property income for the financial year ended 31 December 2008 (FY2008) was \$52.6 million, an increase of \$12.6 million or 31.4% over \$40.1 million for the financial year ended 31 December 2007 (FY2007). The increase was due mainly to higher rental income as a result of higher rental rates achieved for new and renewed leases. Average gross rental rates for the investment properties held directly by K-REIT Asia reached \$6.08 per square foot (psf) per month in December 2008, 30.8% higher from \$4.65 psf per month for the same period in 2007.



## Financial Review

### Net Property Income

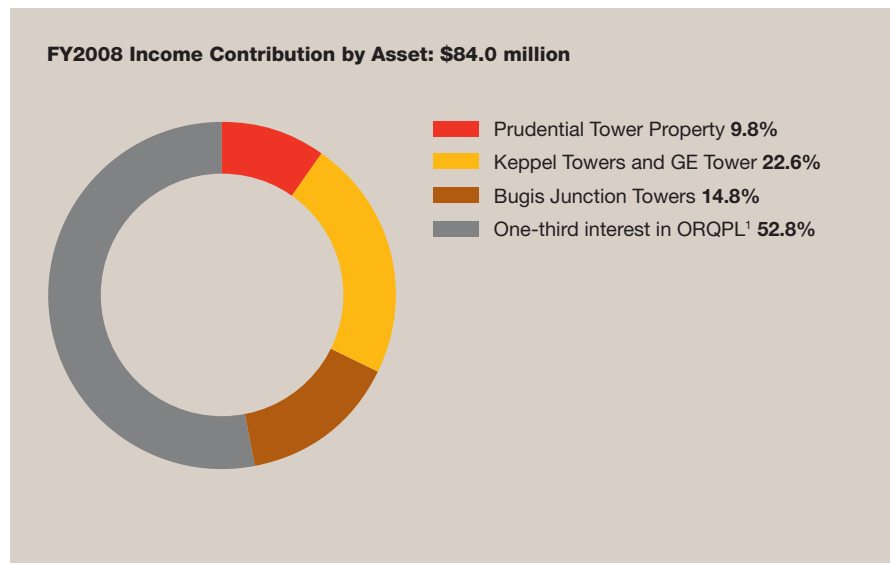
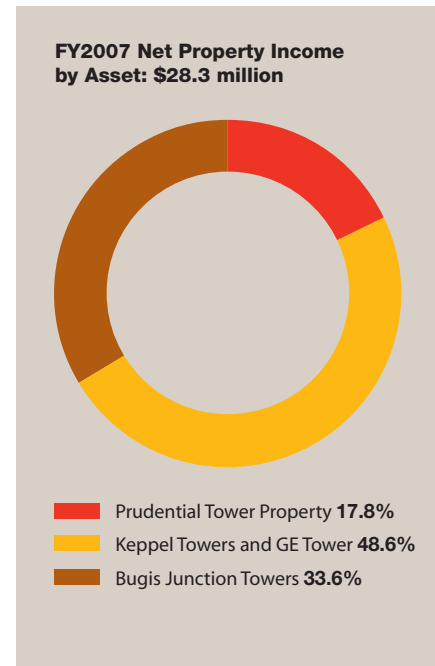
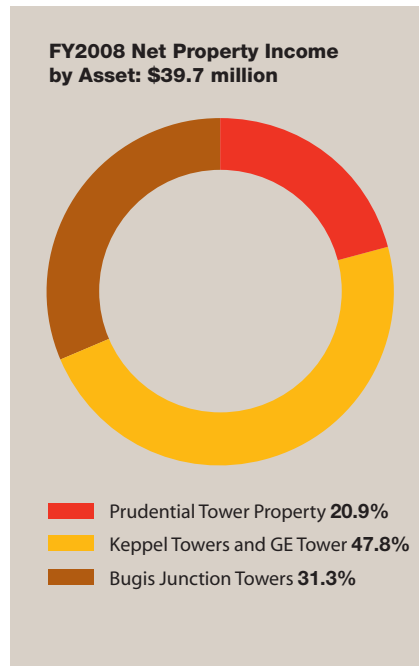
Net property income rose \$11.4 million or 40.3% to \$39.7 million in FY2008 from \$28.3 million in FY2007 as a result of higher rental income.

Property expenses were \$13.0 million, \$1.2 million or 10.0% higher than that achieved last year, due mainly to a higher property tax of \$0.2 million on account of higher annual value assessed, higher utilities of \$0.5 million and higher maintenance expense of \$0.5 million.

### Income Contribution

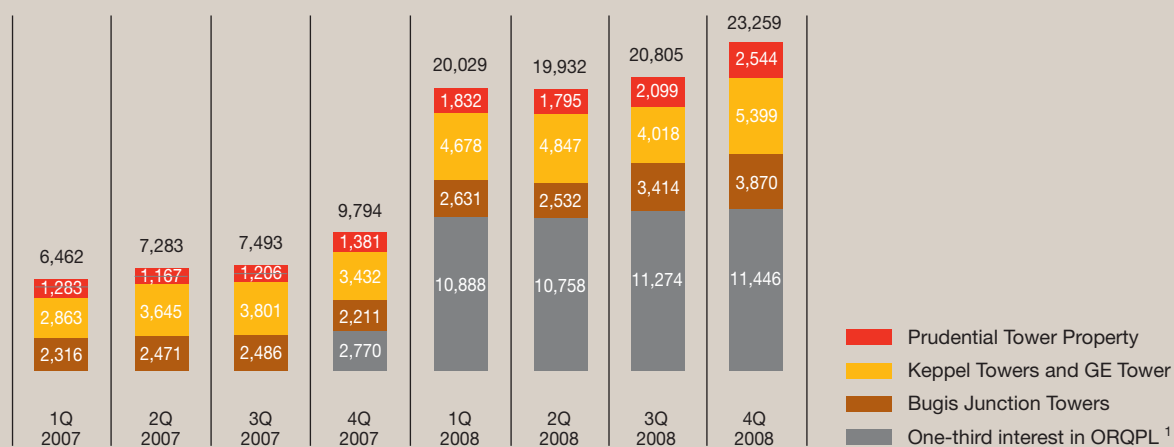
Income contribution comprises net property income from the investment properties directly held by K-REIT Asia and contributions from its one-third interest in One Raffles Quay Pte Ltd (ORQPL).

Income contribution for FY2008 was \$84.0 million, a significant increase of \$53.0 million or 170.8% over \$31.0 million for FY2007. The increase was due mainly to higher property income from the properties held directly by K-REIT Asia and contributions from the one-third interest in One Raffles Quay Pte Ltd for the full year in FY2008 as compared to a period of 21 days for FY2007.



<sup>1</sup> Comprises income support, interest income and dividend income.

### Income Contribution by Asset by Quarter (\$'000)



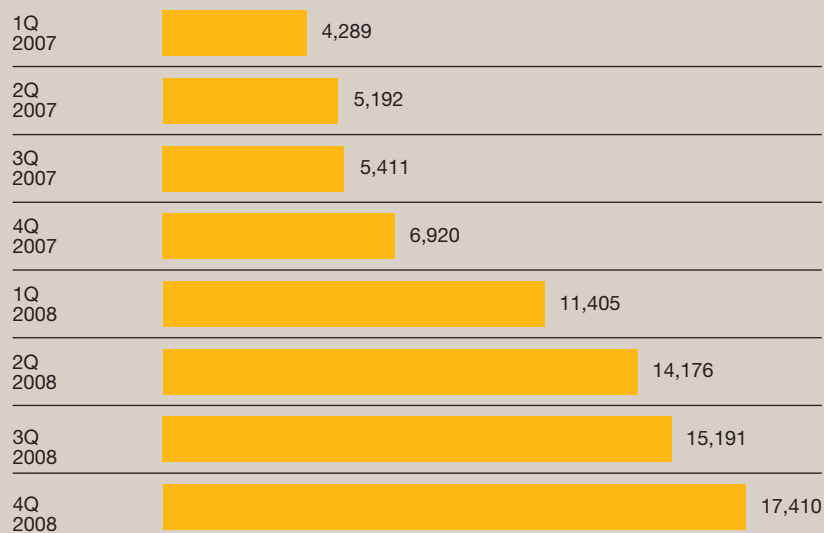
<sup>1</sup> Comprises income support, interest income and dividend income.

### Distributable Income

Distributable income increased by \$36.4 million or 166.7% to \$58.2 million in FY2008 from \$21.8 million in FY2007. The increase was attributed to higher net property income from the investment properties and the contribution from the one-third interest in One Raffles Quay Pte Ltd, partly offset by higher operating expenses.

The increase of \$46.7 million in operating expenses was due mainly to an increase of \$7.7 million in Manager's management fees, an increase of \$14.0 million in borrowing costs due to the loans obtained for the financing of the acquisition of a one-third interest in One Raffles Quay Pte Ltd, an increase of \$25.7 million in amortisation expense of the income support, and a decrease in trust expenses of \$0.7 million.

### Distributable Income by Quarter (\$'000)

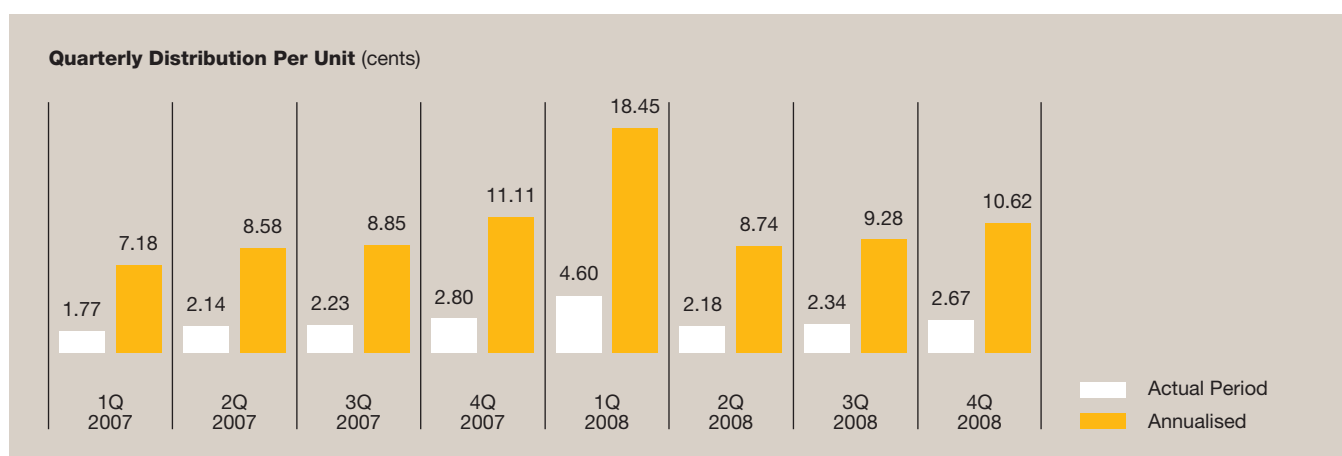
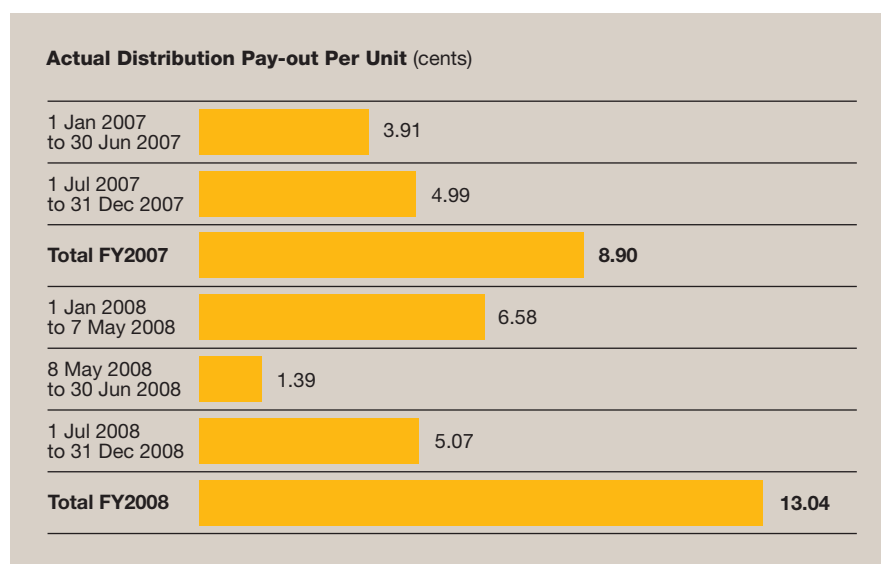


## Distribution Pay-out

K-REIT Asia's distribution policy is to distribute at least 90% of its distributable income on a semi-annual basis. For FY2008, K-REIT Asia distributed 100% of its distributable income, paying out a total DPU of 13.04 cents. This comprises 6.58 cents for the period 1 January 2008 to 7 May 2008, and 1.39 cents and 5.07 cents for the period 8 May 2008 to 30 June 2008 and 1 July 2008 to 31 December 2008 respectively.

A combined distribution of 6.46 cents for the period 8 May 2008 to 31 December 2008 were paid to the enlarged number of units subsequent to a rights issue completed on 8 May 2008. Under the rights issue, K-REIT Asia issued 396.9 million new units.

In FY2007, K-REIT Asia distributed 8.90 cents per unit, comprising 3.91 cents and 4.99 cents for the periods 1 January 2007 to 30 June 2007 and 1 July 2007 to 31 December 2007 respectively.





### Assets Under Management

The total assets under management as at 31 December 2008 for K-REIT Asia were the same as at 31 December 2007 at \$2,102.0 million.

### Valuation of Properties

	FY2008 <sup>1</sup> Valuation \$ million	FY2007 <sup>2</sup> Valuation \$ million	Change %
Prudential Tower Property	224.0	227.0	(1.3)
Keppel Towers and GE Tower	580.0	580.0	–
Bugis Junction Towers	313.0	303.0	3.3
	<b>1,117.0</b>	1,110.0	0.6
One-third interest in One Raffles Quay	985.0	992.0	(0.7)
	<b>2,102.0</b>	2,102.0	–

<sup>1</sup> Valuation as at 31 December 2008.

<sup>2</sup> Valuation as at 10 December 2007.

### Net Asset Value

As at 31 December 2008, K-REIT Asia's net asset per unit was \$2.28.

This represented a decline of 39.7% over \$3.78 as at 31 December 2007 due mainly to the enlarged number of units subsequent to the completion of the rights issue on 8 May 2008.

#### Net Asset Value Per Unit (\$)

At listing 26 Apr 2006	1.83
31 Dec 2006	2.04
31 Dec 2007	3.78
31 Dec 2008	2.28

## Capital Management

### Cash Management

K-REIT Asia takes a proactive role in monitoring its cash and liquid reserves to ensure that adequate funding is available for distribution to Unitholders as well as to meet any short-term liabilities.

### Funding and Borrowings

Blossom Assets established a \$3 billion multi-currency secured medium-term loan programme, which provides an opportunity for K-REIT Asia to tap a wider investor base in funding future assets acquisition plans.

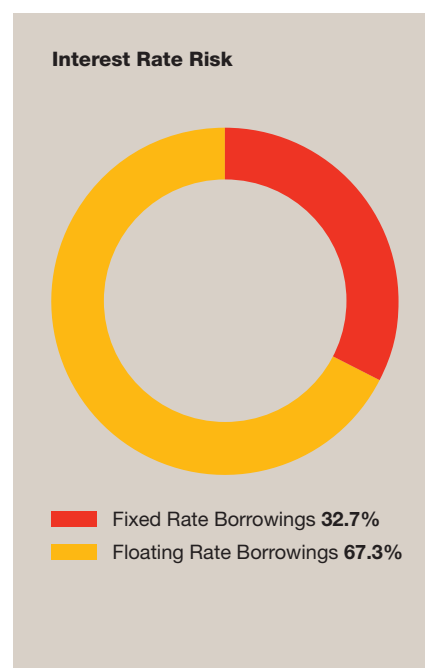
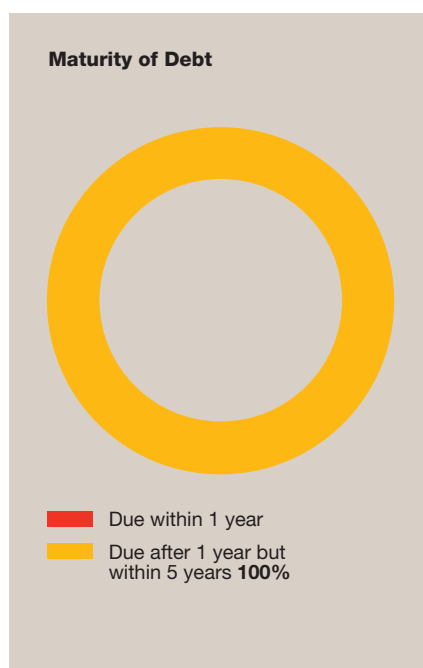
Under the facility agreement between Blossom Assets Limited (Blossom Assets) and the Trustee, Blossom Assets has granted K-REIT Asia a five-year fixed-rate term loan facility totaling \$190.1 million. The term loan facility was funded by issuing €95.4 million secured commercial mortgage-backed securities (CMBS) notes. The notes comprise €80.4 million class AAA and €15 million class AA notes at an interest margin of between 20 to

35 basis points per annum above EURIBOR. The term loan facilities were utilised to partially finance the acquisition of Prudential Tower Property, Keppel Towers and GE Tower, and Bugis Junction Towers.

At the beginning of the financial year, K-REIT Asia had a revolving loan of \$942.0 million due to Kephinace Investment Pte Ltd (Kephinace) for the financing of the acquisition of a one-third interest in One Raffles Quay Pte Ltd for an initial period of nine months commencing from the draw-down date.

During the year, K-REIT Asia completed a rights issue exercise where it raised a total gross proceeds of \$551.7 million by issuing 396.9 million new units at a rights issue price of \$1.39 per unit. K-REIT Asia utilised the net proceeds of \$550.7 million to repay part of the \$942.0 million loan in May 2008.

Subsequently, K-REIT Asia put in place a revolving loan facility of up to \$391.0 million from Kephinace for a period of 30 months commencing from 10 September 2008 and thereafter

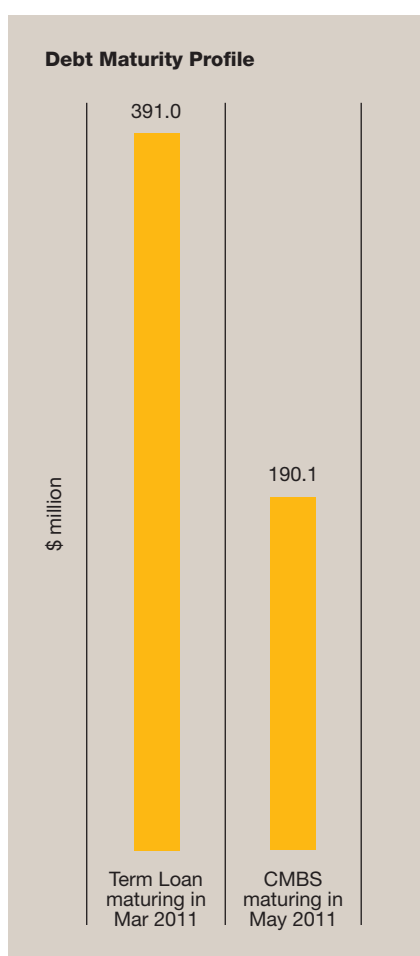


renewable on terms, including new maturity date, to be agreed between parties. As at 31 December 2008, the amount outstanding was \$391.0 million.

As a result, total gross borrowings of K-REIT Asia stood at \$581.1 million, lowering its aggregate leverage to 27.6% as at 31 December 2008.

In December 2007, Moody's Investor Services assigned K-REIT Asia with a corporate rating of "Baa3". With the credit rating established, K-REIT Asia is allowed to borrow up to a maximum of 60.0% of the value of its deposited property under the Property Fund Guidelines.

Average cost of borrowings for the financial year ended 31 December 2008 was 3.19% per annum with an EBITDA interest coverage ratio of 3.14 times, which is higher than the 2.46 times for FY2007 due to the lower borrowing costs as a result of the partial repayment of the bridging loan for the financing of the acquisition of the one-third interest in One Raffles Quay Pte Ltd through the proceeds of the rights issue.



## Key Statistics

	As at 31 Dec 2008	As at 31 Dec 2007
Aggregate leverage <sup>1</sup>	<b>27.6%</b>	53.9%
Gross borrowings	<b>\$581.1 million</b>	\$1,132.1 million
Value of deposited properties	<b>\$2,102.0 million</b>	\$2,102.0 million
EBIT interest coverage ratio <sup>2</sup>	<b>1.99 times</b>	2.32 times
EBITDA interest coverage ratio <sup>3</sup>	<b>3.14 times</b>	2.46 times
EBIT	<b>\$47.0 million</b>	\$22.2 million
EBITDA	<b>\$74.0 million</b>	\$23.6 million
Interest expense	<b>\$23.6 million</b>	\$9.6 million
All-in interest rate <sup>4</sup>	<b>3.19%</b>	3.88%
Weighted average term to expiry	<b>2.3 years</b>	1.1 years
Corporate rating	<b>Baa3</b>	Baa3

<sup>1</sup> Aggregate leverage: Ratio of gross borrowings to value of deposited properties.

<sup>2</sup> EBIT interest coverage: Ratio of profit before interest expense and tax to interest expense.

<sup>3</sup> EBITDA interest coverage: Ratio of profit before interest expense, tax, depreciation and amortisation to interest expense.

<sup>4</sup> All-in interest rate includes amortisation of upfront debt arrangement expenses.

## Financial Review

### Cash Flows and Liquidity

Net cash from operating activities for the financial year ended 31 December 2008 was \$39.0 million. This was an increase of \$9.7 million over the operating cashflow of \$29.3 million in the preceding financial period. This was mainly contributed by the increased operating profit.

Net cash generated from investment activities was \$45.3 million comprising mainly the income contribution from the one-third interest in One Raffles Quay Pte Ltd as well as a repayment of shareholder's loan from One Raffles Quay Pte Ltd.

Net cash used in financing activities was \$63.3 million which included a distribution of \$37.9 million to its unitholders during the year, payment of interest expense of \$21.2 million and payment of upfront fee of \$3.9 million for the new revolving loan obtained during the year.

As at 31 December 2008, the value of cash and cash equivalents of K-REIT Asia stood at \$44.0 million, compared with \$22.9 million as at 31 December 2007.

### Accounting Policies

The financial statements have been prepared in accordance with the Statement of Recommended Accounting Practice (RAP) 7 "Reporting Framework of Unit Trusts" issued by the Institute of Certified Public Accountants of Singapore, and the applicable requirements of the Code on Collective Investment Schemes issued by the Monetary Authority of Singapore and the provisions of the Trust Deed.

### Sensitivity Analysis

K-REIT Asia's portfolio comprises 44.4% of the strata area of Prudential Tower, Keppel Towers and GE Tower, Bugis Junction Towers and a one-third interest in One Raffles Quay through its one-third shareholding interest in One Raffles Quay Pte Ltd. The rental income from these properties is sensitive to changes in their occupancy rates and the rental rates for lease renewals and rent reviews.

Assuming that current average rental rate is maintained, a full year's impact on rental income for every 10% increase or decrease in current average rental rates would be approximately \$1.5 million.

### Change in Rental Income <sup>1</sup>

Resulting from:	\$'000
1% increase in occupancy rate <sup>2 3</sup>	353.5
1% decrease in occupancy rate <sup>2</sup>	(862.7)
10% increase in current average rental rate <sup>4</sup>	1,489.7
10% decrease in current average rental rate <sup>4</sup>	(1,489.7)

<sup>1</sup> Comprising rental income derived from the initial properties and one-third interest in One Raffles Quay Pte Ltd.

<sup>2</sup> Assuming current average rental rate is maintained.

<sup>3</sup> Excluding properties with full occupancy.

<sup>4</sup> Based on leases due for renewal and rent review in year 2009.

K-REIT Asia is also subject to exposure to interest rate changes pertaining to interest-earning financial assets and interest-bearing financial liabilities. In respect of interest rate applicable for the interest-earning financial assets and interest bearing financial liabilities, a 75 basis point increase or decrease in the interest rates will cause a decrease or increase of \$2.6 million in K-REIT Asia's total return before tax.

### Change in Total Return Before Tax

Resulting from:	\$'000
75 basis point increase in interest rate	(2,556)
75 basis point decrease in interest rate	2,556

## Risk Management

The Manager is proactive in assessing risk factors and ensures they are mitigated effectively and efficiently.

The Manager believes that good risk management practices and strong internal controls are critical components to K-REIT Asia's business. The Manager also constantly reviews its risk management framework and policy to ensure key business risks of K-REIT Asia are pro-actively managed and mitigated. Key risks identified by the Manager are related to K-REIT Asia's investment activities, operating activities in its existing properties and financial management. A summary of the key risks identified are as follows:

### Investment Risk

The Manager has determined that significant risk lies in investment decisions in the pursuit of new assets. Accordingly, the Manager has set out procedures to be followed when making such decisions. These internal control procedures ensure better risk assessment and enforce the need for comprehensive due diligence in relation to any investment proposal. Well informed and pragmatic decisions are then made as to whether the anticipated return on investment is appropriate having regard to the level of risk involved.

All investments must be reviewed by the Board and approvals are given only after proper analysis has been carried out, including addressing risks involved in any particular transaction and the impact on K-REIT Asia.

### Operational Risk

As part of the overall effort to promote sustainability of distributable income, the Manager has put in place a system of measures to ensure the smooth operation of K-REIT Asia's assets. Some of these include negotiating for favourable terms and covenants, controlling expenses, actively monitoring rental payments from tenants, continuously evaluating our counter-parties and maximising property value. Furthermore, disaster and pandemic business continuity plans are periodically reviewed and modified as and when necessary.

### Financial Risk

#### • Credit Risk

Prior to signing any major lease agreement, a credit assessment is carried out on each prospective tenant. In addition, security deposits as a multiple of monthly rents are also collected from tenants, reflecting lease tenure and other applicable business risks that may exist. Furthermore, the property portfolio's tenant trade sector mix is also actively managed to avoid excessive exposure to any one potentially volatile trade sector.

#### • Interest Rate Risk

Interest rate risks are managed on an ongoing basis through the use of appropriate term facilities and floating positions. In addition,

the interest rate environment is also continuously monitored so as to identify opportunities to refinance higher cost debt where and when appropriate.

#### • Liquidity Risk

K-REIT Asia's cash flow position and working capital are monitored closely to ensure the availability of adequate liquid reserves to meet short term obligations. Furthermore, all essential funding requirements are planned well in advance so as to manage cash position at any point of time more effectively.

#### • Currency Risk

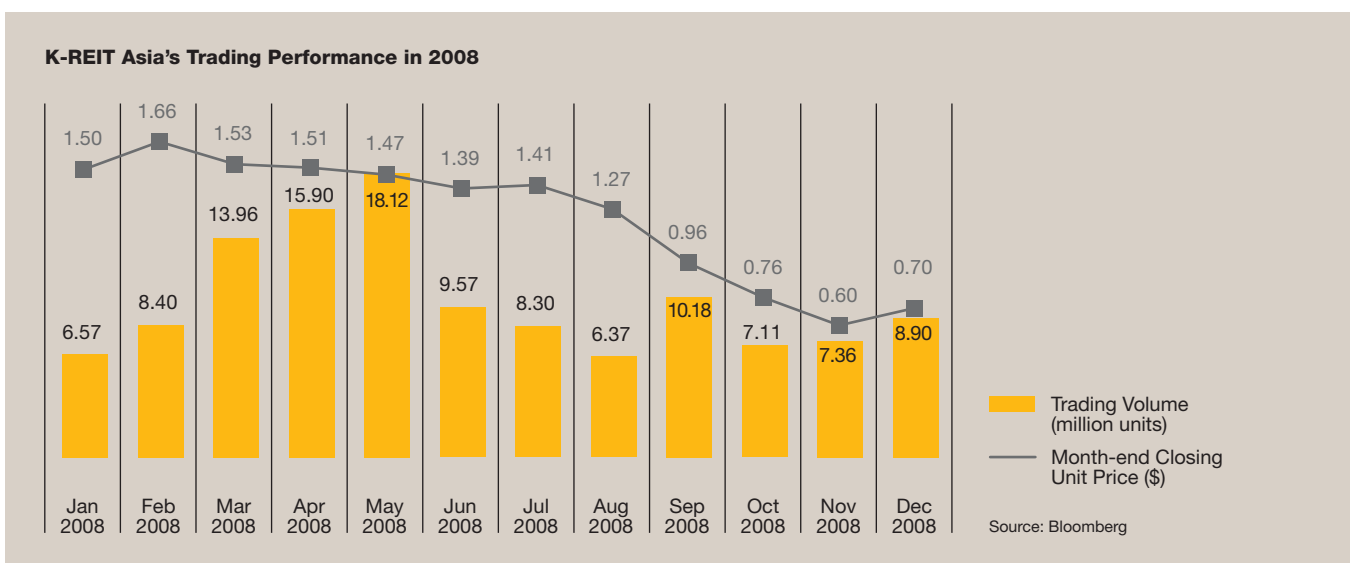
Currency risk is not a major concern for K-REIT Asia given that all its borrowings are in Singapore dollars at present. However, as overseas acquisitions are contemplated, it is intended that any debt financing relating to such acquisitions be in the same currency in which the assets are denominated. In addition, other appropriate hedging strategies will be adopted as and when deemed necessary.

# Unit Price Performance

As the equity market and S-REIT sector suffered one of their worst quarters in a decade, K-REIT Asia's unit price closed at \$0.70 on 31 December 2008, down 67.1% from \$2.13 on 31 December 2007. The Singapore stock market ended the year down 49.2% as the contagion effects of the financial crisis in United States spread across the global markets. The FTSE ST Real Estate Investment Trust Index fell by 59.0% during the same period on the back of concerns over refinancing and softening rentals.

Market concerns over a share overhang due to a proposed rights issue kept K-REIT Asia's unit price under pressure during the first quarter of 2008. The exercise which was announced in January 2008, was subsequently approved by Unitholders during an Extraordinary General Meeting in March. During the month of May 2008, there was a spike in trading volume due to the issue of 396.9 million units under the rights issue.

K-REIT Asia's trading liquidity improved to approximately 120.8 million units in 2008 from about 104.4 million units in 2007.



## Unit Price

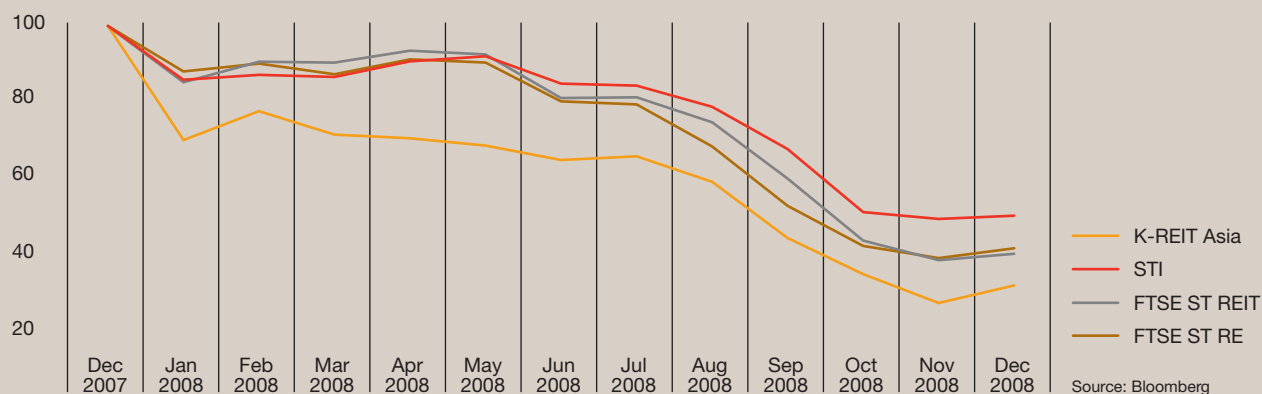
	2008	2007
Highest	\$2.13	\$3.42
Lowest	\$0.57	\$2.08
Average closing	\$1.27	\$2.78
Closing on 31 December	\$0.70	\$2.13
Trading volume (million units)	120.8	104.4

## Comparative Price Trends

	K-REIT Asia		STI		FTSE ST RE		FTSE ST REIT	
	Closing unit price (\$) at month-end	Change %	Closing index value at month-end	Change %	Closing index value at month-end	Change %	Closing index value at month-end	Change %
Dec 2007	2.13	100.00	3,465.63	100.00	876.68	100.00	890.16	100.00
Jan 2008	1.50	70.42	2,981.75	86.04	773.30	88.21	760.07	85.39
Feb 2008	1.66	77.93	3,026.45	87.33	791.10	90.24	807.57	90.72
Mar 2008	1.53	71.83	3,007.36	86.78	766.79	87.47	805.54	90.49
Apr 2008	1.51	70.89	3,147.79	90.83	800.84	91.35	833.05	93.58
May 2008	1.47	69.01	3,192.62	92.12	793.41	90.50	824.47	92.62
Jun 2008	1.39	65.26	2,947.54	85.05	705.16	80.44	723.82	81.31
Jul 2008	1.41	66.20	2,929.65	84.53	698.32	79.66	725.47	81.50
Aug 2008	1.27	59.62	2,739.95	79.06	602.81	68.76	667.88	75.03
Sep 2008	0.96	45.07	2,358.91	68.07	467.70	53.35	537.91	60.43
Oct 2008	0.76	35.68	1,794.20	51.77	376.88	42.99	395.12	44.39
Nov 2008	0.60	28.17	1,732.57	49.99	349.20	39.83	349.95	39.31
Dec 2008	0.70	32.86	1,761.56	50.83	371.53	42.38	364.72	40.97

### Comparative Price Trends

% change in unit price/index value



## Unit Price Performance

### Unit Price/Index Change

	From 31 December 2007 to 31 December 2008
K-REIT Asia	-67.1%
STI	-49.2%
FTSE ST RE	-57.6%
FTSE ST REIT	-59.0%

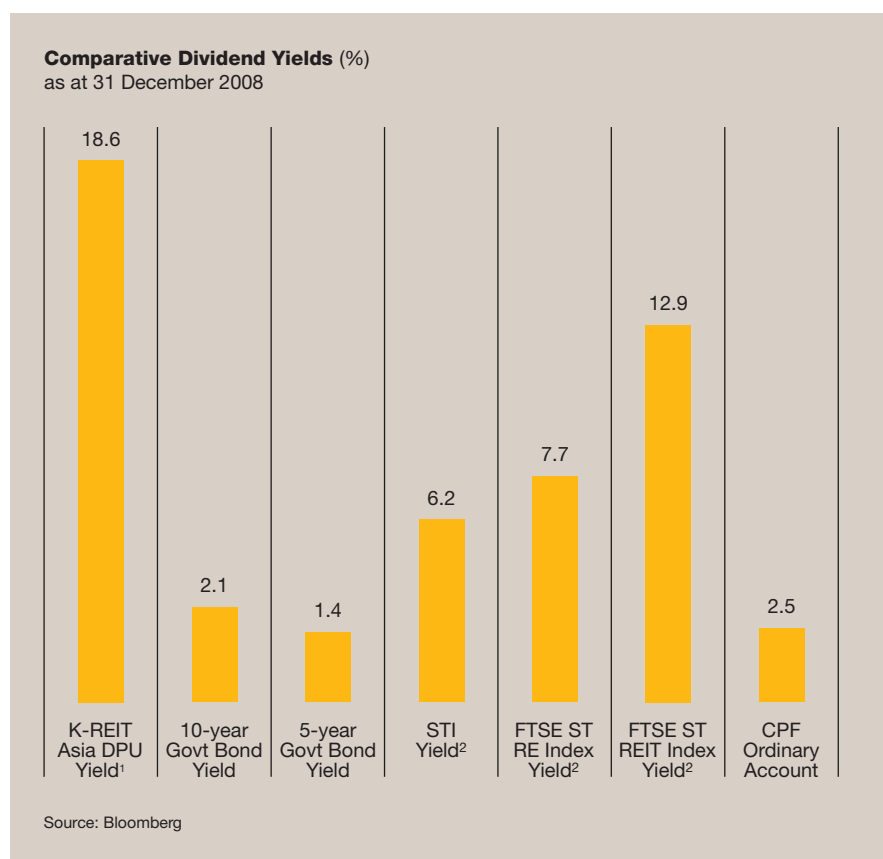
STI : Straits Times Index  
 FTSE ST RE : FTSE ST Real Estate Index  
 FTSE ST REIT : FTSE ST Real Estate Investment Trust Index

### K-REIT Asia's Total Returns<sup>1</sup>

Since listing on 28 April 2006 <sup>2</sup> to 31 December 2008	-7.1%
From 31 December 2007 to 31 December 2008	-61.0%

<sup>1</sup> Sum of distribution yield and capital appreciation

<sup>2</sup> Based on first trading day's opening price per unit of \$1.04



<sup>1</sup> Based on K-REIT Asia's actual distribution per unit pay-outs of 6.58 cents for 1 January 2008 to 7 May 2008, 1.39 cents for 8 May 2008 to 30 June 2008, 5.07 cents for 1 July 2008 to 31 December 2008 and closing unit price of \$0.70 as at 31 December 2008.

<sup>2</sup> Based on 12-month gross dividend yield of stocks in the Straits Times Index, FTSE ST Real Estate Index and FTSE ST Real Estate Investment Trust Index as at 31 December 2008.



# Financial Calendar

**April 2009**

Announcement of first quarter 2009 financial results

**July 2009**

Announcement of half year 2009 financial results

**August 2009**

Distribution pay-out to Unitholders for the period January to June 2009

**October 2009**

Announcement of third quarter 2009 financial results

**January 2010**

Announcement of full-year 2009 financial results

**February 2010**

Distribution pay-out to Unitholders for the period July to December 2009

## Safety Management

The Manager believes a healthy and worksafe environment is important for business excellence.



The Manager recognises the importance and duty of ensuring the health and safety of employees and occupants in K-REIT Asia's buildings. This duty includes ensuring the safety of the working environment, and providing information, training and supervision to employees.

To manage the full spectrum of health and safety-related risks in the workplace, the Manager has put in place a Safety Management System (SMS) in all K-REIT Asia's buildings. Under the SMS, all contractors are required to

comply with standard procedures such as safe work practices, hazard identifications and risk assessments, safety inspections and audits, controls of use of hazardous substances and emergency preparedness.

In 2008, the Manager also implemented a yearly external audit by a safety consultant to assess the safety aspects of all building operations within the entire portfolio of properties. All findings and recommendations from the safety consultant were taken into account and implemented where appropriate.

**The Manager of K-REIT Asia is committed to:**

- Make available adequate resources, identify and evaluate safety and health risks related to its operations that will potentially affect its employees, co-workers, contractors, visitors and public
- Set measurable targets to control such risks including monitoring their progress through audit and periodic reviews
- Conduct, communicate and share with employees and others who might be affected by its operations, knowledge about the safety and health effects of its operations
- Emphasise to all employees and others working on its behalf their responsibility, accountability and commitment to observing all safety and health rules, practices and laws that apply to their job, and for taking precautions necessary to protect them, their co-workers, contractors, visitors and the public from harm which may arise out of work activities
- Strive for continuous improvements by regularly reviewing operations and processes, risk assessment and controls, and to measure progress and to ensure compliance with the relevant legislative requirements

To further improve the individual property managers' knowledge of safety management, all such personnel were trained in the management of chemicals or hazardous substances, particularly those used in K-REIT Asia's buildings. A permit-to-work system was also introduced in all buildings for high-risk activities such as demolition, work at height and lifting operations involving the use of mobile crane equipment.

To raise awareness of safety amongst employees and tenants, the Manager held health and safety exhibitions at K-REIT Asia's building lobbies.

**Plans for 2009**

In an effort to continually improve, the Manager will be placing particular attention on the education of employees, property management staff and tenants of K-REIT Asia's buildings. Training programmes will be arranged for all property managers to cover topics such as risk management, fire safety and workplace safety and health management. Further exhibitions and awareness campaigns are also in the pipeline.

In addition to holding health and safety exhibitions in the coming year, the Manager will also be looking into the possibility of equipping appointed fire wardens with additional equipment and provisions for use in emergency situations.



Employees are encouraged to expand their knowledge on safety by undergoing regular training for safety management.

## Environmental Responsibility

K-REIT Asia implements green initiatives, supporting environmental protection while enhancing its assets.



The Manager recognises that every organisation has a corporate responsibility and an obligation to minimise adverse impact on the environment and it has taken proactive steps to implement a set of eco-friendly initiatives and practices.

### **World Environment Day**

In conjunction with the World Environment Day on 5 June 2008, several green activities were launched to encourage staff to adopt environmentally-friendly practices.

Banners to promote awareness of green issues amongst tenants and visitors were exhibited at the lobbies of all K-REIT Asia's buildings. Some of the green issues highlighted at the exhibitions include climate change, waste minimisation and recycling.

Staff also attended a lunch-time talk organised at the National Library, featuring an eco-stellar line of Singapore's environmental champions. Dr Geh Min, President of the Nature Society, shared on the topic 'Saving the Forests, Saving the Earth' while Professor Leo Tan from the Nanyang Technological University shared on 'Low Carbon Strategies: Ways to Green-Up Your Life'. The third speaker, Mr Stewart Tai, Facilities Management Manager from Alexandra Hospital elaborated on a case study on how the hospital management improved the well-being of their patients by building a green haven within the hospital's premises.

Participants brought unwanted recycle-able items and dropped them into the recycling bins at the event and also made pledges to take active steps towards being more ecologically aware in their daily lives. In return, pledgers received recycle-able bags and mugs.

On 7 June 2008, staff and tenants of K-REIT Asia's properties attended a complimentary screening of *An Inconvenient Truth*, an acclaimed documentary about global warming,

championed by former United States Vice President, Al Gore.

### **Environment Champions**

K-REIT Asia's representatives attended the Environment Champions Workshop on 5 September 2008. The workshop, a first in a series of three, was jointly organised by Keppel Integrated Engineering and the National Environment Agency (NEA). It allows environment champions from different companies to gain valuable knowledge and share innovative ideas with their organisations on how they can help to protect the environment.

During the workshop, the 'green champions' worked in groups to brainstorm on how to pitch, plan, communicate and implement environmental initiatives. K-REIT Asia's representatives also pledged commitment to play their role for the environment during the workshop.

### **Reducing, Reusing and Recycling**

The three recycling bins that were placed at Keppel Towers and GE Tower in 2007, were well-used by tenants. In 2008, the Manager continued with this initiative and placed another four recycling bins at Bugis Junction Towers.

To promote recycling efforts, the Manager printed 500 recycle-able carry bags and distributed them as corporate gifts. This helped to convey and promote the message of environmental conservation to external parties and express the Manager's commitment towards recycling and reduction of unnecessary usage of resources – in particular the overuse of plastic shopping bags.

K-REIT Asia continued to make its Annual Reports available online at its corporate website, enabling users to access them quickly and at their convenience – saving both paper as well as costs incurred for printing and mailing.



**K-REIT Asia's buildings have pockets of green relief.**

Both K-REIT Asia's Annual Reports for 2007 and this report for 2008 are printed on semi-wood free paper.

### **Green Buildings**

The Manager aims to raise the standard of environmental performance for K-REIT Asia's office buildings. The Manager believes that sustainable buildings will not only reap benefits for the environment but also in corporate branding and reputation, energy savings as well as tenants' well-being.

The Manager is looking into obtaining the Building and Construction Authority of Singapore (BCA) Green Mark certification for all K-REIT Asia's buildings. The BCA Green Mark is a green building rating system used to evaluate a building for its environmental impact and performance. It is endorsed and supported by the NEA. For instance, the Manager is currently in the process of upgrading air-conditioner chillers at Keppel Towers and GE Tower to energy-efficient units so as to ensure that they fall within the Green Mark guidelines.

## People

The Manager of K-REIT Asia believes in investing in people to drive further growth.



At K-REIT Asia, effective talent management is of strategic importance for long-term organisational success. In 2008, the Manager continued to focus efforts on developing, retaining and engaging employees who have the aptitude and abilities to meet current and future organisational and business needs. These efforts form part of the Manager's talent management strategies to become an employer of choice.

### Developing Talent

To accelerate the assimilation of new staff into the company, improvements were made to the staff orientation programme in 2008. These include new activities such as interaction sessions with senior management, briefings by various business leaders and tours of properties owned by K-REIT Asia. The revamped programme helps new staff to gain a better understanding of the Manager's core corporate philosophies and policies and business. It also provides a platform for new staff to meet and interact.

Even during periods of economic uncertainty, the Manager invests in training and development to enable employees to realise their full potential at work. A training calendar which provides an annual directory of pre-evaluated training courses to address core competency areas, allows employees and supervisors to plan their training schedules in advance.

Besides core competency training, training roadmaps were also developed for various key job families. These roadmaps identify appropriate training programmes for different job families with the aim of equipping staff with the required functional competencies to perform their current jobs as well as to prepare them for higher roles. In 2008, each employee clocked in an average of eight training days, more than double the average of three training days in 2007.



Activities are organised to promote team bonding and personal enrichment for a balanced lifestyle.

### Retaining and Engaging Talents

The Manager of K-REIT Asia is a performance-driven organisation and it is the Manager's policy to reward its staff with competitive performance-based packages so as to retain top talent. An external human resources consultant was engaged to review the Manager's total compensation framework. A new compensation framework was subsequently proposed and will be implemented in 2009. The new framework aligns the goals of the employees with the organisation's and reinforces its pay-for-performance philosophy.

To better understand the career aspirations of staff, formal career planning discussions were held. During these sessions, line managers worked with their direct reporting staff, to jointly draw up an Individual Development Plan for each employee. This process provides opportunities for relationship building between managers and staff through periodic dialogues. The Manager has also reviewed and improved the staff performance appraisal process.

Reflecting the Manager's emphasis on talent, a Talent Review Committee comprising top management was set up in late 2008. The Committee will commence its meetings in 2009, to address human capital issues proactively, as well as to chart the careers of talents.

In a move to open more lines of communication between management and staff, management interaction sessions were introduced. Key management interacts periodically with staff at various levels during these sessions to build rapport and exchange perspectives on work and other issues.

### Employee Wellness

As an employer who believes that health is wealth, the Manager continues to offer company-paid health screenings to its employees. The Manager also provides gymnasium usage for employees to promote a healthy lifestyle.

To encourage team bonding, the Manager frequently organises activities such as festive dinner and dance events throughout the year. Such activities enrich employees' work lives and provide opportunities for them to interact on an informal basis.

The company's welfare committee promotes wellness and "heartware" for all employees. To promote the Committee's theme of *Love Life, Live Well*, inter-Strategic Business Units games, badminton coaching programmes and regular health workshops for personal enrichment, beauty and general well-being were organised. Healthy food and drinks were also distributed on a monthly basis to all employees. The Committee worked with various suppliers to offer discounts on health, beauty, personal care products and festive food products as well.

## Investor Relations

Keeping an open-door policy with the investment community is a high priority of the Manager.

The Manager believes that openness and transparency are essential in maintaining positive relations with stakeholders. The cornerstone of an effective investor relations programme also involves good communications. To achieve a high level of transparency, the Manager is committed to fair, timely, regular and consistent disclosures to all Unitholders and investors. In recognition of its corporate transparency efforts, K-REIT Asia achieved a ranking of 28th amongst 704 Singapore publicly-listed companies in the Business Times Corporate Transparency Index as at 12 May 2008.

### Communications with the Investment Community

Senior management meets analysts and fund managers frequently through one-on-one or group meetings, conference calls and post-results luncheons. They also interact with existing and potential investors at investment conferences hosted by various major financial institutions. Some of the conferences that the senior management took part in included the Citigroup Asia Pacific Property Conference, CLSA Corporate Access Forum, CIMB-GK Corporate Day, Nomura Asia Equity Forum and Morgan Stanley Asia Pacific Summit.

In 2008, senior management also participated in more than 50 meetings in Singapore and more than 30 abroad.

They met or held conference calls with about 140 institutional investors from Singapore, Hong Kong, Australia, United States, the Middle East, United Kingdom and other European countries. These included non-deal marketing roadshows in Singapore, Hong Kong, London and Amsterdam.

The Manager aims to raise awareness and understanding of K-REIT Asia through such interactions with the investment community. They also provide opportunities for the Manager to provide clarity on K-REIT Asia's growth strategies, corporate developments and financial performance. Currently, nine local

and foreign brokerage firms have undertaken research coverage on K-REIT Asia.

The Manager hosts combined analyst and media results briefings every six months to provide an update on K-REIT Asia's half year and full-year financial and operational performance. The briefings are usually chaired by K-REIT Asia's Chief Executive Officer and supported by the Deputy Chief Executive Officer.

In accordance with K-REIT Asia's commitment to deliver accurate, timely and transparent information to Unitholders and the general public,



Meeting with media and analysts at results briefings allows K-REIT Asia's management to share growth strategies.



results announcements are made within 30 days from the end of each quarter. In addition, financial results and press releases on significant corporate developments are updated on K-REIT Asia's corporate website on the same day that they are released to the Singapore Exchange. Subscribers to an email alert notification service on K-REIT Asia's website will be promptly notified via email when the announcements are released to the public.

General information on K-REIT Asia including annual reports, property portfolio details and investor presentations are updated regularly on the website for investors and the general public. Where and when appropriate, the Manager also arranges tours of its properties, upon advance request, for overseas visitors, analysts and potential investors.

Approximately 7,900 registered Unitholders owned K-REIT Asia units as at 31 December 2008 and about 22% of the units were held by institutional investors. K-REIT Asia's sponsor, Keppel Land, and its parent company, Keppel Corporation, own a combined interest of 75.3% of the units in issue.

### **Rights Issue**

On 31 March 2008, the Manager held an Extraordinary General Meeting (EGM) to seek Unitholders' approval for a proposed rights issue. To allay Unitholders' concerns over the exercise, the Manager took steps in advance to communicate the rationale and merits for the rights issue with investors. An overseas roadshow and tele-conferences were held to garner Unitholders' support for the exercise. The resolution was unanimously passed by Unitholders at the EGM.

The rights issue was fully subscribed, demonstrating Unitholders' endorsement and confidence in the long-term potential of K-REIT Asia. In May 2008, the Manager successfully completed the rights issue exercise, raising net proceeds of \$550.7 million through an issue of 396.9 million units. The net proceeds were subsequently used to partially repay debt.

### **Looking Ahead**

2009 is expected to be a challenging year. Given such market conditions, there is a need to pay more attention to communication with current and prospective investors. The Manager will continue to actively promote K-REIT Asia through the various platforms available and keep existing Unitholders regularly updated on its strategy and latest corporate developments.

### **For general enquiries on K-REIT Asia, please contact:**

Ms Serena Toh  
Deputy General Manager  
Investor Relations and Research  
Tel: (65) 6433 7546  
Fax: (65) 6337 7226

Ms Jeanette Pang  
Manager  
Investor Relations and Research  
Tel: (65) 6433 7622  
Fax: (65) 6337 7226  
www.kreitasia.com  
Email: investor.relations@kreitasia.com

### **The Unitholder Registrar**

Boardroom Corporate Advisory  
and Services Pte. Ltd.  
3 Church Street #08-01  
Samsung Hub  
Singapore 049483  
Tel: (65) 6536 5355  
Fax: (65) 6536 1360  
www.boardroomlimited.com

### **Unitholder Depository**

For depository-related matters such as change of details pertaining to Unitholders' investment records, please contact:

The Central Depository  
(Pte) Limited  
4 Shenton Way  
#02-01 SGX Centre 2  
Singapore 068807  
Tel: (65) 6535 7511  
Fax: (65) 6535 0775  
www.cdp.com.sg  
Email: cdp@sgx.com

## Community

The Manager believes in cultivating meaningful and productive relationships in the community.



Networking amongst tenants is encouraged through events such as golf tournaments.

Good tenant relations contribute to K-REIT Asia's asset management strategy. The Manager constantly seeks to reinforce the brand of K-REIT Asia and create a sense of belonging among its tenants.

Ramping up on activities to engage tenants, the Manager and the other two joint venture partners of One Raffles Quay invited select tenants to the Formula 1 Singapore Grand Prix race in September 2008. The guests enjoyed an uninterrupted view of the Grand Prix race amidst good food and company.

On 3 October 2008, the Manager hosted K-REIT Asia's valued tenants at the third annual K-REIT Asia Golf Tournament. The event which was held at the Tampines Course at Tanah Merah Country Club, presented an opportunity for K-REIT Asia's management team to interact with tenants and invited guests. The tournament saw a total of 104 participants.

K-REIT Asia's annual Christmas function on 12 December 2008 lit up the festive mood for its tenants as they feasted on a sumptuous buffet and actively mingled with K-REIT Asia's team members at Keppel Towers' building lobby. Corporate tenants from GE Tower, Bugis Junction Towers and Prudential Tower were also invited to the casual gathering. This highly anticipated event was the Manager's way of expressing appreciation for tenants' support in the past year.

The Manager also believes in contributing to the communities in which it operates, and it leverages on activities of its sponsor, Keppel Land, to do so.

A Christmas bazaar with a community and eco-friendly theme was organised in December 2008 for all staff. The booths at the bazaar were set up by local and international charities such as – Institute of Mental Health, Association for Persons with Special Needs, Cicada Tree Eco-Place, Singapore Management University Ambassadors raising funds for Elephant Nature Foundation, World Vision, Tabitha Foundation and Riverkids Project. The lunch-time bazaar showcased various goods and handicrafts, ranging from handmade silk accessories, organic treats, recycled notebooks and handmade jewellery to wallets made of recycled cardboard and rain-proof coats.

In line with the Christmas spirit of giving and sharing, K-REIT Asia also helped to fulfill gift wishes of children from Association for Persons with Special Needs Tanglin School. In December 2008, the Manager displayed Christmas trees with the children's wish tags at the lobbies of K-REIT Asia's buildings. A total of about 120 gifts were collected from the tenants of Prudential Tower, Bugis Junction Towers, Keppel Towers and GE Tower, bringing festive cheer to the children.

**The accessibility of K-REIT Asia's management and their support to our business truly strengthens the landlord-tenant relationship.**

Mr Stephen Chatham  
Group Services Manager  
The Executive Centre

**We find K-REIT Asia's team friendly, approachable, prompt and efficient, with us the tenants, always in mind.**

Mr Clarence Tan  
Senior Vice President,  
Finance & Business Support  
InterContinental Hotels Group Asia Pacific

**We appreciate K-REIT Asia's team for their prompt and attentive responses to our needs.**

Ms Agnes Lim  
Director (Operation)  
Protrust Asia Pte Ltd



Toasting to a strong tenant-landlord relationship with K-REIT Asia.

## Statistics of Unitholdings

### As at 2 March 2009

#### Issued and Fully Paid Units

657,543,286 Units (Voting rights : 1 vote per Unit)

There is only one class of Units in K-REIT Asia.

Market capitalisation of \$341,922,509 based on market closing price of \$0.52 on 2 March 2009.

#### Distribution of Unitholdings

Size of Unitholdings	No. of Unitholders	%	No. of Units	%
1 – 999	2,433	29.92	755,119	0.11
1,000 – 10,000	4,320	53.14	15,721,410	2.39
10,001 – 1,000,000	1,360	16.73	60,813,538	9.25
1,000,001 and above	17	0.21	580,253,219	88.25
<b>Total</b>	<b>8,130</b>	<b>100.00</b>	<b>657,543,286</b>	<b>100.00</b>

#### Twenty Largest Unitholders

No.	Name	No. of Units	%
1	K-REIT Asia Investment Pte. Ltd.	292,661,486	44.51
2	Keppel Real Estate Investment Pte. Ltd.	203,717,224	30.98
3	DBS Nominees Pte Ltd	18,254,210	2.78
4	United Overseas Bank Nominees Pte Ltd	16,398,648	2.49
5	HSBC (Singapore) Nominees Pte Ltd	14,430,517	2.20
6	Citibank Nominees S'pore Pte Ltd	9,226,205	1.40
7	DBSN Services Pte Ltd	4,683,202	0.71
8	Phillip Securities Pte Ltd	3,428,944	0.52
9	Yeo Seng Kia	3,005,000	0.46
10	ING Nominees (S'pore) Pte Ltd	2,812,640	0.43
11	OCBC Securities Private Ltd	2,621,015	0.40
12	Raffles Nominees Pte Ltd	2,354,607	0.36
13	Lim & Tan Securities Pte Ltd	1,496,207	0.23
14	Loh Chee Chin Trent	1,350,000	0.21
15	Morgan Stanley Asia (S'pore) Securities Pte Ltd	1,343,000	0.20
16	OCBC Nominees Singapore Pte Ltd	1,269,872	0.19
17	Kim Eng Securities Pte. Ltd.	1,200,442	0.18
18	DBS Vickers Securities (S) Pte Ltd	981,291	0.15
19	DB Nominees (Singapore) Pte Ltd	945,280	0.14
20	See Beng Lian Janice	884,000	0.13
	<b>Total</b>	<b>583,063,790</b>	<b>88.67</b>

### The Manager's Directors' Unitholdings

As shown in the Register of Directors' Unitholdings as at 21 January 2009

Name of Director	No. of Units
Tsui Kai Chong	NIL
Kevin Wong Kingcheung	1,444,488 (Direct)
Tan Swee Yiow	235,000 (Direct)
Lee Ai Ming	130,000 (Direct)
Lim Poh Chuan	NIL
Chin Wei-Li, Audrey Marie	NIL

### Substantial Unitholders

As shown in the Register of Substantial Unitholders as at 2 March 2009

Name	No. of Units	%
Temasek Holdings (Private) Limited	496,382,710 (Deemed) <sup>1</sup>	75.49
Keppel Corporation Limited	496,378,710 (Deemed) <sup>2</sup>	75.49
Keppel Land Limited	292,661,486 (Deemed) <sup>3</sup>	44.51
K-REIT Asia Investment Pte. Ltd.	292,661,486 (Direct)	44.51
Keppel Real Estate Investment Pte. Ltd.	203,717,224 (Direct)	30.98

#### Notes

<sup>1</sup> Temasek Holdings (Private) Limited's deemed interest arises from its shareholdings in Keppel Corporation Limited and Mount Faber Leisure Group Pte. Ltd..

<sup>2</sup> Keppel Corporation Limited's deemed interest arises from its shareholdings in Keppel Real Estate Investment Pte. Ltd., a wholly-owned subsidiary of Keppel Corporation Limited, and in K-REIT Asia Investment Pte. Ltd., a wholly-owned subsidiary of Keppel Land Limited, which is in turn a subsidiary of Keppel Corporation Limited.

<sup>3</sup> Keppel Land Limited's deemed interest arises from its shareholdings in K-REIT Asia Investment Pte. Ltd., a wholly-owned subsidiary of Keppel Land Limited.

### Free Float

Based on information made available to the Manager as at 2 March 2009, approximately 24.23% of the Units in K-REIT Asia are held under public hands. Accordingly, Rule 723 of the Listing Manual of the SGX-ST has been complied with.

There are no treasury units held by K-REIT Asia or the Manager.

# Corporate Information

## **K-REIT Asia**

Registered Address

### **RBC Dexia Trust Services Singapore Limited**

20 Cecil Street  
#28-01 Equity Plaza  
Singapore 049705  
Tel: (65) 6823 5000  
Fax: (65) 6536 7566  
www.kreitasia.com

## **Trustee**

### **RBC Dexia Trust Services Singapore Limited**

20 Cecil Street  
#28-01 Equity Plaza  
Singapore 049705  
Tel: (65) 6823 5000  
Fax: (65) 6536 7566

## **Auditor**

### **Ernst & Young LLP**

Certified Public Accountants  
One Raffles Quay  
Level 18 North Tower  
Singapore 048583  
Tel: (65) 6535 7777  
Fax: (65) 6532 7662  
(Partner-in-charge: Mr Yee Woon Yim)  
(Since year ended 31 December 2006)

## **Unit Registrar and Unit Transfer Office**

### **Boardroom Corporate & Advisory Services Pte. Ltd.**

(a member of Boardroom Limited)  
3 Church Street  
#08-01 Samsung Hub  
Singapore 049483  
Tel: (65) 6230 9532  
Fax: (65) 6536 1360

## **The Manager**

Registered Address

### **K-REIT Asia Management Limited**

1 HarbourFront Avenue  
#18-01 Keppel Bay Tower  
Singapore 098632  
Tel: (65) 6835 7477  
Fax: (65) 6835 7747  
Email: investor.relations@kreitasia.com

## **Directors of the Manager**

### **Professor Tsui Kai Chong**

Chairman and Non-Executive  
Independent Director

### **Mr Kevin Wong Kingcheung**

Deputy Chairman and  
Non-Executive Director

### **Mr Tan Swee Yiow**

Chief Executive Officer and Director

### **Mrs Lee Ai Ming**

Non-Executive Independent Director

### **Mr Lim Poh Chuan**

Non-Executive Independent Director

### **Dr Chin Wei-Li, Audrey Marie**

Non-Executive Independent Director

## **Audit Committee**

Dr Chin Wei-Li, Audrey Marie  
Mrs Lee Ai Ming  
Mr Lim Poh Chuan

## **Nominating and Remuneration Committee**

Mr Lim Poh Chuan  
Professor Tsui Kai Chong  
Dr Chin Wei-Li, Audrey Marie

## **Company Secretaries**

Mr Choo Chin Teck  
Ms Jacqueline Ng Yu Eng

# Financial Statements

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# Report of the Trustee

For the financial year ended 31 December 2008

RBC Dexia Trust Services Singapore Limited (the "Trustee") is under a duty to take into custody and hold the assets of K-REIT Asia in trust for the holders ("Unitholders") of units in K-REIT Asia. In accordance with, inter alia, the Securities and Futures Act, Chapter 289 of Singapore, its subsidiary legislation and the Code on Collective Investment Schemes and the Listing Manual (collectively referred to as the "laws and regulations"), the Trustee shall monitor the activities of K-REIT Asia Management Limited (the "Manager") for compliance with the limitations imposed on the investment and borrowing powers as set out in the trust deed dated 28 November 2005 (as amended) (the "Trust Deed") between the Manager and the Trustee in each annual accounting period and report thereon to Unitholders in an annual report which shall contain the matters prescribed by the laws and regulations as well as the recommendations of Statement of Recommended Accounting Practice 7 "Reporting Framework for Unit Trusts" issued by the Institute of the Certified Public Accountants of Singapore and the provisions of the Trust Deed.

To the best knowledge of the Trustee, the Manager has, in all material respects, managed K-REIT Asia during the period covered by these financial statements, set out on pages 105 to 131 comprising the Balance Sheet, Statement of Total Return, Distribution Statement, Portfolio Statement, Statement of Movements in Unitholders' Funds, Statement of Cash Flows and Notes to the Financial Statements, in accordance with the limitations imposed on the investment and borrowing powers set out in the Trust Deed, laws and regulations and otherwise in accordance with the provisions of the Trust Deed.

For and on behalf of the Trustee,  
RBC Dexia Trust Services Singapore Limited



Lim Hock Guan  
Deputy Managing Director

Singapore, 11 February 2009



## Statement by the Manager

For the financial year ended 31 December 2008

In the opinion of the directors of K-REIT Asia Management Limited (the “Manager”), the accompanying financial statements set out on pages 105 to 131 comprising the Balance Sheet, Statement of Total Return, Distribution Statement, Portfolio Statement, Statement of Movements in Unitholders’ Funds, Statement of Cash Flows and Notes to the Financial Statements are drawn up so as to present fairly, in all material respects, the financial position of K-REIT Asia as at 31 December 2008, the total return, distributable income, movement in Unitholders’ funds and cash flows for the year ended on that date in accordance with the recommendations of Statement of Recommended Accounting Practice 7 “Reporting Framework for Unit Trusts” issued by the Institute of Certified Public Accountants of Singapore and the provisions of the Trust Deed. At the date of this statement, there are reasonable grounds to believe that K-REIT Asia will be able to meet its financial obligations as and when they materialise.

For and on behalf of the Manager,  
K-REIT Asia Management Limited



Tan Swee Yiow  
Chief Executive Officer and Director

Singapore, 11 February 2009

# Independent Auditors' Report to the Unitholders of K-REIT Asia

For the financial year ended 31 December 2008

To the members of K-REIT Asia

We have audited the accompanying financial statements of K-REIT Asia (the "Trust") set out on pages 105 to 131, which comprise the Balance Sheet and Portfolio Statement as at 31 December 2008, the Statement of Total Return, Distribution Statement, Statement of Movements in Unitholders' Funds and Statement of Cash Flows of the Trust for the year then ended, and a summary of significant accounting policies and other explanatory notes.

## Responsibility of the Manager for the Financial Statements

The Manager is responsible for the preparation and fair presentation of these financial statements in accordance with the recommendations of Statement of Recommended Accounting Practice 7 "Reporting Framework for Unit Trusts" issued by the Institute of Certified Public Accountants of Singapore and the Singapore Financial Reporting Standards. This responsibility includes devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair statement of total return and balance sheet and to maintain accountability of assets; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

## Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Singapore Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Trust's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Trust's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Manager, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Trust as at 31 December 2008, the total return, distributable income, movements in Unitholders' funds and cash flows for the year ended on that date in accordance with the provision of Singapore Financial Reporting Standards and the recommendations of Statement of Recommended Accounting Practice 7 "Reporting Framework for Unit Trusts" issued by the Institute of Certified Public Accountants of Singapore.



## Ernst & Young LLP

Public Accountants and  
Certified Public Accountants

Singapore, 11 February 2009

# Balance Sheet

As at 31 December 2008

	Note	2008 \$'000	2007 \$'000
<b>Non-current assets</b>			
Investment properties	3	1,117,000	1,110,000
Investment in associated company	4	513,523	509,535
Advances to associated company	5	348,946	355,946
Intangible asset	6	59,232	86,282
		<b>2,038,701</b>	2,061,763
<b>Current assets</b>			
Trade and other receivables	7	9,525	3,308
Prepaid expenses		128	86
Cash and cash equivalents	8	43,968	22,927
		<b>53,621</b>	26,321
<b>Total assets</b>		<b>2,092,322</b>	2,088,084
<b>Current liabilities</b>			
Trade and other payables	9	12,202	11,924
Income received in advance		557	554
Current portion of security deposits		3,602	1,237
Short-term borrowings (unsecured)	10	-	942,000
Provision for taxation		3,073	163
		<b>19,434</b>	955,878
<b>Non-current liabilities</b>			
Long-term borrowings	11	577,135	189,283
Non-current portion of security deposits		10,082	9,156
		<b>587,217</b>	198,439
<b>Total liabilities</b>		<b>606,651</b>	1,154,317
<b>Net assets</b>		<b>1,485,671</b>	933,767
Represented by :			
<b>Unitholders' funds</b>		<b>1,485,671</b>	933,767
<b>Units in issue ('000)</b>	12	<b>652,724</b>	247,184
<b>Net asset value per unit (\$)</b>		<b>2.28</b>	3.78

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

# Statement of Total Return

For the financial year ended 31 December 2008

	Note	2008 \$'000	2007 \$'000
Gross revenue	13	52,646	40,069
Property expenses	14	(12,987)	(11,807)
<b>Net property income</b>		<b>39,659</b>	28,262
Income support	15	24,799	1,080
Share of results of associated company		14,776	490
Interest income		9,069	1,062
Amortisation expense	6	(27,050)	(1,341)
Manager's management fees	16	(12,967)	(5,302)
Trust expenses	17	(1,328)	(1,980)
Borrowing costs	18	(23,580)	(9,582)
<b>Net income</b>		<b>23,378</b>	12,689
Net gain on revaluation of investment properties		7,000	432,964
<b>Total return before tax</b>		<b>30,378</b>	445,653
Income tax expense	19	(2,910)	(163)
<b>Total return after tax</b>		<b>27,468</b>	445,490
<b>Earnings per unit (cents)</b>	20		
Basic		5.33	176.57
Diluted		5.33	176.57

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

# Distribution Statement

For the financial year ended 31 December 2008

	2008 \$'000	2007 \$'000
<b>Income available for distribution to Unitholders at beginning of the year</b>	<b>12,338</b>	8,385
Net income	<b>23,378</b>	12,689
Net tax adjustments (Note A)	<b>37,714</b>	9,286
Income tax expense	<b>(2,910)</b>	(163)
	<b>58,182</b>	21,812
Income available for distribution to Unitholders	<b>70,520</b>	30,197
Distribution to Unitholders:		
Distribution of 3.47 cents per unit for the period from 1/7/2006 to 31/12/2006	-	(8,384)
Distribution of 3.91 cents per unit for the period from 1/1/2007 to 30/6/2007	-	(9,475)
Distribution of 4.99 cents per unit for the period from 1/7/2007 to 31/12/2007	<b>(12,337)</b>	-
Distribution of 6.58 cents per unit for the period from 1/1/2008 to 7/5/2008	<b>(16,465)</b>	-
Distribution of 1.39 cents per unit for the period from 8/5/2008 to 30/06/2008	<b>(9,027)</b>	-
<b>Income available for distribution to Unitholders at end of the year</b>	<b>32,691</b>	12,338
<b>Note A - Net tax adjustments comprise:</b>		
Non-tax deductible/ (chargeable) items:		
- Manager's management fees payable in Units	<b>12,967</b>	5,302
- Trustee's fees	<b>344</b>	132
- Amortisation expense	<b>27,811</b>	1,582
- Other non-tax deductible expenses	<b>600</b>	1,765
- Certain expenses claimed on an incurred basis	-	(5)
- Share of results of associated company	<b>(14,776)</b>	(490)
	<b>26,946</b>	8,286
Dividend income from associated company	<b>10,768</b>	1,000
<b>Net tax adjustments</b>	<b>37,714</b>	9,286

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

# Portfolio Statement

As at 31 December 2008

Description of Property	Tenure of Land	Term of Lease	Remaining Term of Lease	Location	Existing Use	Carrying Value 2008 \$'000	Carrying Value 2007 \$'000	Percentage of Net Assets 2008 %	Percentage of Net Assets 2007 %
<b>Investment properties in Singapore</b>									
Prudential Tower Property <sup>1</sup>	Leasehold	99 years	86 years	30 Cecil Street	Commercial	<b>224,000</b>	227,000	<b>15.1</b>	24.3
Keppel Towers and GE Tower	Estate in fee simple	NA	NA	10 Hoe Chiang Road and 240 Tanjong Pagar Road	Commercial	<b>580,000</b>	580,000	<b>39.0</b>	62.1
Bugis Junction Towers	Leasehold	99 years	80.7 years	230 Victoria Street	Commercial	<b>313,000</b>	303,000	<b>21.1</b>	32.5
<b>Investment properties, at valuation (Note 3)</b>						<b>1,117,000</b>	1,110,000	<b>75.2</b>	118.9
<b>Investment in and advances to associated company (Note 4 &amp; 5) and intangible asset (Note 6)</b>						<b>921,701</b>	951,763	<b>62.0</b>	101.9
Property held by associated company:									
One Raffles Quay	Leasehold	99 years	91.4	1 Raffles Quay	Commercial				
<b>Other assets and liabilities (net)</b>						<b>(553,030)</b>	(1,127,996)	<b>(37.2)</b>	(120.8)
<b>Net assets</b>						<b>1,485,671</b>	933,767	<b>100.0</b>	100.0

The carrying amounts of the investment properties and the Trust's one-third interest in One Raffles Quay as at 31 December 2008 were based on independent valuations undertaken by Knight Frank Pte Ltd on 31 December 2008. The independent valuer has appropriate professional qualifications and recent experience in the location and category of the properties being valued. The valuations are determined based on investment method and discounted cash flow analysis. The valuations adopted were \$224,000,000, \$580,000,000 and \$313,000,000 for Prudential Tower Property, Keppel Towers and GE Tower, and Bugis Junction Towers, respectively. The net gain on revaluation of investment properties has been taken to the profit and loss account. The valuation of the Trust's one-third interest in One Raffles Quay (including the income support top-up payments) was \$985,000,000.

The carrying amounts of the investment properties and the Trust's one-third interest in One Raffles Quay as at 31 December 2007 were based on independent valuations undertaken by Knight Frank Pte Ltd on 10 December 2007. The valuations adopted were \$227,000,000, \$580,000,000 and \$303,000,000 for Prudential Tower Property, Keppel Towers and GE Tower, and Bugis Junction Towers, respectively. The net gain on revaluation has been taken to the profit and loss account. The valuation of the Trust's one-third interest in One Raffles Quay (including the income support top-up payments) was \$992,000,000.

Investment properties comprise commercial properties that are mainly leased to external customers. Generally, the leases contain an initial non-cancellable period of three years. Subsequent renewals are negotiated with the lessee.

<sup>1</sup> comprise approximately 44.4% of the strata area in Prudential Tower.

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

# Statement of Movements in Unitholders' Funds

For the financial year ended 31 December 2008

	Issued Equity \$'000	Accumulated Profits \$'000	Total \$'000
<b>At 1 January 2008</b>	454,258	479,509	933,767
<b>Operations</b>			
Total return after tax	-	27,468	27,468
Net increase in assets resulting from operations	-	27,468	27,468
<b>Unitholders' transactions</b>			
Creation of units			
- payment of management fees in units	11,595	-	11,595
- rights issue	551,726	-	551,726
Issue expenses <sup>1</sup>	(1,013)	-	(1,013)
Distribution to Unitholders	-	(37,872)	(37,872)
Net increase/ (decrease) in net assets resulting from Unitholders' transactions	562,308	(37,872)	524,436
<b>At 31 December 2008</b>	<b>1,016,566</b>	<b>469,105</b>	<b>1,485,671</b>
<b>At 1 January 2007</b>	440,519	51,878	492,397
<b>Operations</b>			
Total return after tax	-	445,490	445,490
Net increase in assets resulting from operations	-	445,490	445,490
<b>Unitholders' transactions</b>			
Creation of units			
- payment of management fees in Units	4,324	-	4,324
- payment of acquisition fees in Units	9,415	-	9,415
Distribution to Unitholders	-	(17,859)	(17,859)
Net increase/ (decrease) in net assets resulting from Unitholders' transactions	13,739	(17,859)	(4,120)
<b>At 31 December 2007</b>	<b>454,258</b>	<b>479,509</b>	<b>933,767</b>

<sup>1</sup> Non-audit fees paid to auditors of the Trust capitalised during the year as issue expenses was \$129,000.

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

# Statement of Cash Flows

For the financial year ended 31 December 2008

	2008 \$'000	2007 \$'000
<b>Cash flows from operating activities</b>		
Total return before tax	<b>30,378</b>	445,653
<i>Adjustments for:</i>		
Interest income	<b>(9,069)</b>	(1,062)
Amortisation expense	<b>27,050</b>	1,341
Share of results of associated company	<b>(14,776)</b>	(490)
Borrowing costs	<b>23,580</b>	9,582
Management fees payable in Units	<b>12,967</b>	5,302
Net gain on revaluation of investment properties	<b>(7,000)</b>	(432,964)
<b>Operating cash flows before reinvestment in working capital</b>	<b>63,130</b>	27,362
Increase in receivables	<b>(24,706)</b>	(655)
(Decrease)/increase in payables	<b>(2,708)</b>	806
Security deposits	<b>3,291</b>	1,777
<b>Net cash generated from operating activities</b>	<b>39,007</b>	29,290
<b>Cash flows from investing activities</b>		
Interest received	<b>9,720</b>	368
Improvements in investment properties	-	(36)
Intangible asset	-	(87,623)
Investment in associated company (Note A)	-	(852,560)
Income support received	<b>19,556</b>	-
Dividend income received from associated company	<b>9,008</b>	-
Repayment of loan from associate company	<b>7,000</b>	-
<b>Net cash generated from/(used in) investing activities</b>	<b>45,284</b>	(939,851)
<b>Cash flows from financing activities</b>		
Distribution to Unitholders	<b>(37,872)</b>	(17,859)
Proceeds from rights issue	<b>551,726</b>	-
Repayment of short-term borrowings	<b>(551,000)</b>	-
Upfront debt arrangement costs	<b>(3,910)</b>	-
Proceeds from new loan	-	942,000
Issue expenses	<b>(1,013)</b>	-
Interest paid	<b>(21,181)</b>	(7,467)
<b>Net cash (used in)/generated from financing activities</b>	<b>(63,250)</b>	916,674
<b>Net increase in cash and cash equivalents</b>	<b>21,041</b>	6,113
<b>Cash and cash equivalents at beginning of the year</b>	<b>22,927</b>	16,814
<b>Cash and cash equivalents at end of the year (Note 8)</b>	<b>43,968</b>	22,927

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.



2008	2007
\$'000	\$'000

**Note A - Investment in associated company**

Net cash outflow on investment in associated company is set out below:

Unquoted shares, at cost	-	510,045
Advances to associated company	-	355,946
	-	865,991
Less:		
Acquisition fee paid in Units	-	(9,415)
Accrued purchase consideration	-	(2,218)
Accrued acquisition costs	-	(1,798)
Net cash outflow on investment in associated company	-	852,560

**Note B - Significant non-cash transactions**

During the financial year, the following were the significant non-cash transactions:

- (i) 8,615,445 (2007: 1,580,711) Units were issued as payment of management fees to the Manager, amounting to \$11,595,000 (2007: \$4,324,000); and
- (ii) 3,992,451 Units were issued as payment of acquisition fee to the Manager amounting to \$9,415,000 in relation to the acquisition of the one-third interest in One Raffles Quay Pte Ltd in 2007.

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

# Notes to the Financial Statements

For the financial year ended 31 December 2008

These notes form an integral part of the financial statements.

The financial statements of K-REIT Asia (the "Trust") for the financial year ended 31 December 2008 were authorised for issue by the Manager on 11 February 2009.

## 1. General

K-REIT Asia is a Singapore-domiciled real estate investment trust constituted by the Trust Deed dated 28 November 2005 (as amended) (the "Trust Deed") between K-REIT Asia Management Limited (the "Manager") and RBC Dexia Trust Services Singapore Limited (the "Trustee"). The Trust Deed is governed by the laws of the Republic of Singapore. The Trustee is under a duty to take into custody and hold the assets of the Trust in trust for the holders ("Unitholders") of units in the Trust (the "Units"). The address of the Trustee's registered office and principal place of business is 20 Cecil Street, #28-01 Equity Plaza, Singapore 049705.

The Trust was formally admitted to the Official List of the Singapore Exchange Securities Trading Limited ("SGX-ST") on 28 April 2006 and was included in the Central Provident Fund ("CPF") Investment Scheme on 28 April 2006. The principal activity of the Trust is to invest in a portfolio of quality real estate and real estate-related assets which are predominantly used for commercial purposes in Singapore and Asia with the primary objective of generating stable returns to its Unitholders and achieving long-term capital growth.

The immediate and ultimate holding company is Keppel Corporation Limited, incorporated in Singapore.

The Trust has entered into several service agreements in relation to the management of the Trust and its property operations. The fee structures of these services are as follows:

### (a) Property management fees

Under the property management agreement, for property management services rendered by K-REIT Asia Property Management Pte Ltd (the "Property Manager"), the Trustee will pay the Property Manager property management fees of 3.0% per annum of the property income of each of the investment properties.

The Property Manager is also entitled to receive leasing commission at the rates set out as follows:

- (i) one month's Gross Rent (base rental income and tenant service charge) or licence fee, as applicable, for securing a tenancy or licence of two years or more;
- (ii) one-half month's Gross Rent (base rental income and tenant service charge) or licence fee, as applicable, for securing a tenancy or licence of less than two years but at least a year and a proportionate part thereof; and
- (iii) one-quarter month's Gross Rent (base rental income and tenant service charge) or licence fee, as applicable, for securing a renewal of tenancy or licence of a year or more and a proportionate part thereof for securing a renewal of a tenancy or licence of less than a year.

The property management fees are payable monthly in arrears.

### (b) Manager's management fees

Pursuant to the Trust Deed, the Manager is entitled to the following management fees:

- (i) a base fee of 0.5% per annum of the value of all the assets for the time being of the Trust or deemed to be held upon the trust constituted under the Trust Deed ("Deposited Property"); and
- (ii) an annual performance fee of 3.0% per annum of the Net Property Income (as defined in the Trust Deed) of the Trust and any Special Purpose Vehicles (as defined in the Trust Deed) after deducting all applicable taxes payable.

The management fees will be paid in the form of cash and/or Units (as the Manager may elect). The management fees payable in Units will be issued at the volume weighted average price for a Unit for all trades on the SGX-ST in the ordinary course of trading on the SGX-ST for the period of 10 Business Days (as defined in the Trust Deed) immediately preceding the relevant Business Day.

The Manager's management fees are payable quarterly in arrears.

The Manager is also entitled to receive an acquisition fee at the rate of 1% of the acquisition price and a divestment fee of 0.5% of the sale price on all acquisition or disposal of properties.

**(c) Trustee's fees**

Under the Trust Deed, the maximum fee payable to the Trustee is 0.03% per annum of the value of the Deposited Property and shall be payable quarterly in arrears.

**2. Summary of significant accounting policies**

**(a) Basis of preparation**

The financial statements have been prepared in accordance with Statement of Recommended Accounting Practice 7 "Reporting Framework for Unit Trusts" ("RAP 7") issued by the Institute of Certified Public Accountants of Singapore, the applicable requirement of the Code on Collective Investment Schemes ("CIS Code") issued by the Monetary Authority of Singapore and the provisions of the Trust Deed. RAP 7 requires the accounting policies to generally comply with the principles relating to recognition and measurement of the Singapore Financial Reporting Standards ("FRS").

The financial statements, which are expressed in Singapore dollars and rounded to the nearest thousand, unless otherwise stated, are prepared on the historical cost basis, except for investment properties which are stated at fair value.

**(b) Changes in accounting policies**

The following INT FRSs are effective for annual period beginning 1 January 2008:

INT FRS 111	FRS 102 – Group Treasury Share Transactions
INT FRS 112	Service Concession Arrangements
INT FRS 114	FRS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and Their Interaction

The above changes however do not have any implication to the Company's financial statements.

**(c) FRS and INT FRS not yet effective**

The Trust has not applied the following FRS and INT FRS that have been issued but not yet effective:

		<b>Effective date (Annual periods beginning on or after)</b>
INT FRS 113	Customer Loyalty Programmes	1 July 2008
FRS 1	Presentation of Financial Statement	1 January 2009
FRS 23	Borrowing Costs	1 January 2009
FRS 32	Financial Instruments: Presentation – Amendments Relating to Puttable Financial Instruments and Obligations Arising on Liquidation	1 January 2009
FRS 102	Share-based Payment – Vesting Conditions and Cancellations	1 January 2009
FRS 108	Operating Segments	1 January 2009

The Manager expects that the adoption of the above pronouncements will have no material impact to the financial statements in the period of initial application, except for FRS 1 as indicated below:

## Notes to the Financial Statements

### 2. Summary of significant accounting policies (cont'd)

#### **FRS 1 Presentation of Financial Statements – Revised Presentation**

The revised FRS 1 requires owner and non-owner changes in equity to be presented separately. The statement of changes in equity will include only details of transactions with owners, with all non-owner changes in equity presented as a single line item. In addition, the revised standard introduces the statement of comprehensive income: it presents all items of income and expense recognised in profit or loss, together with all other items of recognised income and expense, either in one single statement, or in two linked statements. The Trust is currently evaluating the format to adopt.

#### **(d) Significant accounting estimates and judgements**

Assumptions concerning the future and judgements are made in the preparation of the financial statements. They affect the application of the Trust's accounting policies, reported amounts of assets, liabilities, incomes and expenses and disclosures made. They are assessed on an on-going basis and are based on experience and relevant factors, including expectations of future events that are believed to be reasonable under the circumstances.

In the process of applying the Trust's accounting policies, management has made the following judgement, apart from those involving estimations, which has the most significant effect on the amounts recognised in the financial statements:

##### Valuation of investment properties

Investment properties are stated at fair value based on valuations performed by independent professional valuers. In determining the fair value, the valuers have used valuation methods which involve certain estimates. In relying on the valuations reports, the Manager is satisfied that the valuation methods and estimates are reflective of the current market conditions.

##### Income taxes

The Trust has not accounted for the deferred tax liability arising from the net appreciation on revaluation of investment properties, as subject to meeting the terms and conditions of the Tax Ruling issued by the Inland Revenue Authority of Singapore ("IRAS"), the Trust is not taxed on its distributable taxable income (refer to Note 2(s) Taxation). Where the terms or conditions are changed or have not been met, it will impact the deferred tax provision in those periods.

#### **(e) Functional and foreign currency**

##### (i) Functional currency

The Manager has determined the currency of the primary economic environment in which the Trust operates, i.e. functional currency, to be Singapore dollars.

##### (ii) Foreign currency transactions

Transactions in foreign currencies are measured in the functional currency of the Trust and are recorded on initial recognition at exchange rates approximating those ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the closing rate of exchange ruling at the balance sheet date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

Exchange differences arising on the settlement of monetary items or on translating monetary items at the balance sheet date are recognised in the profit and loss account.

**(f) Investment properties**

Investment properties are initially recorded at cost. Subsequent to recognition, investment properties are measured at fair value and gains or losses arising from changes in the fair value of investment properties are included in the profit and loss account in the year in which they arise.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gain or loss on the retirement or disposal of an investment property is recognised in the profit and loss account in the year of retirement or disposal.

**(g) Associated company**

An associate is an entity in which the Trust has significant influence. The associate is equity accounted for from the date the Trust obtains significant influence until the date the Trust ceases to have significant influence over the associate.

The Trust's investment in associate is accounted for using the equity method whereby the Trust's share of profit or loss of the associated company is included in the profit and loss account and the Trust's share of net assets of the associated company is included in the balance sheet. Goodwill relating to the associate is included in the carrying amount of the investment.

When the Trust's share of losses in an associate equals or exceeds its interest in the associate, the Trust does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

The financial statements of the associate are prepared as of the same reporting date as the Trust. Where necessary, adjustments are made to bring the accounting policies into line with those of the Trust.

**(h) Intangible assets**

Intangible assets acquired separately are measured initially at cost. Following initial recognition, intangible assets are measured at cost less any accumulated amortisation and impairment losses.

Intangible assets with finite useful lives are amortised over the estimated useful lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method are reviewed at least at each financial year-end.

Income support top-up payments

Income support top-up payments represent unamortised aggregate amount receivable in accordance with the Deed of Income Support entered with Boulevard Development Pte Ltd ("Boulevard") for the acquisition of the equity interest in the associated company, One Raffles Quay Pte Ltd. Income support top-up payments have a finite useful life and are amortised over the period commencing from the date of completion up till 31 December 2011 based on the estimated amounts to be received by the Trust from Boulevard.

**(i) Impairment of non-financial assets**

The carrying amounts of the Trust's assets are reviewed at each balance sheet date to determine whether there is any indication that the assets have suffered an impairment loss.

If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Whenever the recoverable amount of an asset is estimated to be less than its carrying amount, the impairment loss is recognised in the profit and loss account.

Reversal of impairment loss recognised previously is recorded when there is an indication that the impairment loss recognised for the asset no longer exists or has decreased. The reversal is recorded in the profit and loss account. However, the increased carrying amount of an asset due to any reversal of impairment loss is recognised to the extent that it does not exceed the cost, at the date of such reversal.

## Notes to the Financial Statements

### 2. Summary of significant accounting policies (cont'd)

#### (j) Financial assets

Financial assets include cash and cash equivalents, trade and other receivables and advances to associated company (non-trade). Financial assets are recognised on the balance sheet when, and only when, the Trust becomes a party to the contractual provisions of the financial instrument.

Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Such assets are initially recognised at fair value, plus directly attributable transaction costs and subsequently carried at amortised cost using the effective interest method. Gains and losses are recognised in profit and loss account when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

##### (i) Trade and other receivables

Trade and other receivables, including amounts due from related parties are classified and accounted for as loans and receivables under FRS 39. They are stated at their fair value and reduced by appropriate allowances for estimated irrecoverable amounts. An allowance is made for uncollectible amounts when there is objective evidence that the Trust will not be able to collect the debt. Bad debts are written off when identified.

##### (ii) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, demand deposits and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Bank balances and cash carried in the balance sheet are classified and accounted for as loans and receivables under FRS 39.

#### (k) Financial liabilities

Financial liabilities include trade payables, which are normally settled on 30-90 day terms, other payables, payables to related parties and interest-bearing borrowings. Financial liabilities are recognised on the balance sheet when, and only when, the Trust becomes a party to the contractual provisions of the financial instrument. Financial liabilities are initially recognised at fair value of consideration received less directly attributable transaction costs and subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in the profit and loss account when the liabilities are derecognised as well as through the amortisation process.

#### (l) Impairment of financial assets

The Trust assesses at each balance sheet date whether there is any objective evidence that a financial asset or group of financial assets is impaired.

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through the use of an allowance account. The amount of the loss and any subsequent write back is recognised in the profit and loss account.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the profit and loss account, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

**(m) Derecognition of financial assets and liabilities**

(i) Financial assets

A financial asset is derecognised where the contractual rights to receive cash flows from the asset have expired which usually coincides with receipts of payments for the asset.

On derecognition, the difference between the carrying amount and the sum of the consideration received is recognised in the profit and loss account.

(ii) Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expired.

**(n) Units issued**

Units issued by the Trust are recorded at the proceeds received, net of direct issue costs.

**(o) Provisions**

Provisions are recognised when the Trust has a present obligation as a result of a past event, and it is probable that the Trust will be required to settle that obligation. Provisions are measured at the Manager's best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

**(p) Leases – as lessor**

Leases where the Trust retains substantially all the risks and rewards of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income.

**(q) Revenue recognition**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Trust and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

(i) Rental income

Rental income arising from investment properties is accounted for on a straight-line basis over the lease terms on ongoing leases. The aggregate cost of incentives provided to lessees is recognised as a reduction of rental income over the lease term on a straight-line basis.

(ii) Interest income

Interest income is recognised on accrual basis using the effective interest method, unless collectibility is in doubt.

(iii) Income support

Income support is recognised on accrual basis.

## Notes to the Financial Statements

### 2. Summary of significant accounting policies (cont'd)

#### (r) Expenses

- (i) Issue expenses  
Issue expenses relate to expenses incurred in the issuance of Units in the Trust. The expenses are deductible directly against Unitholders' funds.
- (ii) Trust expenses  
Trust expenses are recognised on an accrual basis.
- (iii) Property expenses  
Property expenses are recognised on an accrual basis. Included in property expenses is property management fees which is based on the applicable formula stipulated in Note 1(a).
- (iv) Manager's management fees  
Manager's management fees are recognised on an accrual basis based on the applicable formula stipulated in Note 1(b).
- (v) Borrowing costs  
Interest expense and similar charges are recognised in the period in which they are incurred.

#### (s) Taxation

Taxation on the profit for the year comprises current and deferred tax. Income tax is recognised in the profit and loss account except to the extent that it relates to items directly related to Unitholders' funds, in which case it is recognised in Unitholders' funds.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date.

Deferred income tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax assets and liabilities are measured using the tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled based on tax rates enacted or substantively enacted at the balance sheet date.

Deferred tax assets are recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised.

At each balance sheet date, the Trust re-assesses unrecognised deferred tax assets and the carrying amount of deferred tax assets. The Trust recognises a previously unrecognised deferred tax asset to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered. The Trust conversely reduces the carrying amount of a deferred tax asset to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of the deferred tax asset to be utilised.

Subject to meeting the terms and conditions of the Tax Ruling issued by the IRAS, which includes a distribution of at least 90.0% of the taxable income, the Trust is not taxed on the portion of its taxable income that is distributed. Any portion of the taxable income that is not distributed to Unitholders will be taxed on the Trust at the prevailing corporate tax rate.



In the event that there are subsequent adjustments to the taxable income when the actual taxable income of the Trust is finally agreed with the IRAS, such adjustments are taken up as an adjustment to the amount distributed for the next distribution following the agreement with the IRAS.

Although the Trust is not taxed on its taxable income distributed, the Trustee and the Manager are required to deduct income tax at the prevailing corporate tax rate from distributions of such taxable income of the Trust (i.e. which has not been taxed in the hands of the Trustee) to certain Unitholders. The Trustee and the Manager will not deduct tax from distributions made out of the Trust's taxable income to the extent that the beneficial Unitholder is:

- An individual (regardless of residence or nationality);
- A Singapore incorporated company that is a tax resident of Singapore;
- A body of persons, other than a company or partnership, registered or constituted in Singapore (for example, registered charities, town councils, statutory boards, registered co-operative societies and registered trade unions);
- A Singapore branch of a foreign company which has presented a letter of approval from the IRAS granting a specific waiver from tax deducted at source in respect of distributions from the Trust; and
- An agent bank who acted as nominee for individuals who have purchased Units in the Trust under the CPF Investment Scheme or the Supplementary Retirement Scheme.

Subject to meeting certain conditions, where the beneficial owners are foreign non-individual investors or where the Units are held by nominees who can demonstrate that the Units are held for beneficial owners who are foreign non-individual investors, the Trustee and the Manager will deduct tax at the reduced rate of 10.0% from the distribution.

The above tax transparency ruling does not apply to gains from sale of real properties. Such gains, if they are considered as trading gains, are assessable to tax on the Trust. Where the gains are capital gains, the Trust will not be assessed to tax and may distribute the capital gains to Unitholders without having to deduct tax at source.

Any distributions made by the Trust to the Unitholders out of tax-exempt income and taxed income would be exempt from Singapore income tax in the hands of all Unitholders, regardless of their corporate or residence status.

## Notes to the Financial Statements

### 3. Investment properties

	2008 \$'000	2007 \$'000
At 1 January	<b>1,110,000</b>	677,000
Capital expenditure capitalised	-	36
Net gain on revaluation recognised in profit and loss account	<b>7,000</b>	432,964
At 31 December	<b>1,117,000</b>	1,110,000

Investment properties are stated at fair value, which has been determined based on valuations as at 31 December 2008 performed by registered independent valuers having an appropriate recognised professional qualification and recent experience in the location and category of the properties being valued. In determining the fair value, the valuers have used investment method and discounted cash flows analysis that makes reference to estimated market rental values and equivalent yields.

The investment properties have been mortgaged as security for credit facilities granted to the Trust (Note 11).

### 4. Investment in associated company

	2008 \$'000	2007 \$'000
Investment in associated company	<b>513,523</b>	509,535

Included in 2007 was a non-audit fee of \$175,000 paid/ payable to auditors of the Trust capitalised during the year as cost of investment.

Details of the associated company are as follows:

Name	Effective Equity Interest Held by the Trust		Country of Incorporation/ Place of Business	Principal Activities
	2008 %	2007 %		
One Raffles Quay Pte Ltd	<b>33.33</b>	33.33	Singapore	Property Development and Investment

One Raffles Quay Pte Ltd owns the property One Raffles Quay.

The associated company is audited by Ernst & Young LLP, Singapore.

The summarised financial information of the associated company, not adjusted for the proportion of ownership interest held by the Trust, is as follows:

	2008 \$'000	2007 \$'000
Total assets	<b>2,773,884</b>	2,800,628
Total liabilities	<b>1,271,737</b>	1,310,504
Revenue	<b>87,379</b>	4,744
Profit	<b>44,327</b>	1,469

One Raffles Quay Pte Ltd was acquired on 10 December 2007. Thus the comparative figure for the revenue and profit for 2007 was for the period from 11 December 2007 to 31 December 2007.

**5. Advances to associated company (non-trade)**

Advances to the associated company are unsecured, not expected to be repaid within the next 12 months. The interest rate for the year ranged from 1.934% to 3.206% (2007: 3.369%) per annum and is repriced every quarter at a margin above the 3-month S\$ SWAP.

**6. Intangible asset**

	2008 \$'000	2007 \$'000
Cost:		
At 1 January	<b>87,623</b>	-
Additions	<u>-</u>	<u>87,623</u>
At 31 December	<b>87,623</b>	<u>87,623</u>
Accumulated amortisation and impairment:		
At 1 January	<b>1,341</b>	-
Amortisation expense charged to profit and loss account	<u>27,050</u>	<u>1,341</u>
At 31 December	<b>28,391</b>	<u>1,341</u>
Net carrying amount:		
At 31 December	<b>59,232</b>	<u>86,282</u>

Intangible asset represents the unamortised aggregate income support top-up payments receivable in accordance with the Deed of Income Support entered with Boulevard for the acquisition of the equity interest in the associated company, One Raffles Quay Pte Ltd and has a remaining amortisation period of 3 years (2007: 4 years).

## Notes to the Financial Statements

### 7. Trade and other receivables

	2008 \$'000	2007 \$'000
Trade receivables	175	255
Amounts due from related companies (trade)	6,323	1,080
Amounts due from associated company (non-trade)	2,760	1,690
Deposits	191	191
Interest receivable	59	20
Other receivables	17	72
	<u>9,525</u>	<u>3,308</u>

Amounts due from related companies and associated company are unsecured, interest-free, repayable on demand and are to be settled in cash.

The trade receivables are charged or assigned by way of security for credit facilities granted to the Trust (Note 11).

### 8. Cash and cash equivalents

	2008 \$'000	2007 \$'000
Cash at banks and in hand	2,918	120
Fixed deposits with a financial institution	-	22,807
Fixed deposits with a related company	41,050	-
	<u>43,968</u>	<u>22,927</u>

Cash at banks earn interest at floating rates based on daily bank deposit rates ranging from 0.215% to 1.175% (2007: 0.575% to 2.525%) per annum. Short-term deposits are made for varying periods of between 2 days and 115 days depending on the immediate cash requirements of the Trust, and earn interests at the respective short-term deposit rates. The interest rates of short-term deposits range from 0.16% to 1.75% (2007: 1.00% to 3.05%) per annum.

The cash and cash equivalents are charged or assigned by way of security for credit facilities granted to the Trust (Note 11).

**9. Trade and other payables**

	<b>2008</b>	2007
	<b>\$'000</b>	\$'000
Trade payables	<b>1,610</b>	856
Accrued expenses	<b>2,535</b>	3,753
Accrued purchase consideration	<b>623</b>	2,218
Amounts due to related companies		
- trade	<b>3,518</b>	2,773
- non-trade	<b>3,511</b>	1,874
Other deposits	<b>98</b>	143
Interest payable	<b>307</b>	307
	<b>12,202</b>	11,924

Included in accrued expenses is an amount due to the Trustee of \$79,000 (2007: \$52,000).

Included in the amounts due to related companies is an amount due to the Property Manager of \$176,000 (2007: \$98,000) and an amount due to the Manager of \$3,335,000 (2007: \$2,618,000).

Amounts due to related companies are unsecured, interest-free, repayable on demand and are to be settled in cash or Units (Note 1(b)).

**10. Short-term borrowings (unsecured)**

On 10 December 2007, the Trust has put in place a revolving loan facility of up to \$960,000,000 from a related company, Kephinance Investment Pte Ltd ("Kephinance"), for an initial period of 9 months commencing from the drawdown date and thereafter renewable on terms, including new maturity date, to be agreed between the parties. Interest is payable at 3.30% per annum and is repriced within one month. As at 31 December 2007, a sum of \$942,000,000 has been drawn down.

An amount of \$551,000,000 was repaid during the year and a long-term borrowing of \$391,000,000 was obtained from Kephinance to convert the remaining borrowing to a long-term loan (Note 11).

## Notes to the Financial Statements

### 11. Long-term borrowings

	2008 \$'000	2007 \$'000
Term loans (secured)	<b>189,524</b>	189,283
Revolving loan facility (unsecured)	<b>387,611</b>	-
	<b>577,135</b>	189,283
<b>Maturity of loan</b>		
After 1 year but within 5 years	<b>577,135</b>	189,283

The term loan facilities were granted by a special purpose company, Blossom Assets Limited ("Blossom Assets"). Under the facility agreement between Blossom Assets and the Trustee, Blossom Assets has granted the Trust a five-year fixed rate term loan facility totalling \$190,085,000, which is funded by the proceeds of commercial mortgage-backed securities notes.

On 17 May 2006, the term loan facilities were utilised to refinance a bridge loan that was used to part finance the acquisition of the strata title units in Prudential Tower Property, Keppel Towers and GE Tower, and Bugis Junction Towers (the "Properties").

The term loans are due on 17 May 2011 and the fixed interest rates of borrowings vary from 3.905% to 4.055% (2007: 3.905% to 4.055%) per annum.

As security for the facilities granted by Blossom Assets to the Trustee, the Trustee has granted in favour of Blossom Assets the following:

- i. a first legal mortgage over each of the Properties (Note 3);
- ii. an assignment and charge over the rights, title and interest of the Trustee in and to the rental collection account relating to the Properties;
- iii. an assignment of the rights, title and interest of the Trustee in and to the insurance policies relating to the Properties;
- iv. an assignment of the rights, title and interest of the Trustee in and to the agreements relating to the management of the Properties; and
- v. a fixed and floating charge over certain assets of the Trust relating to the Properties.

Blossom Assets has established a \$3 billion Multicurrency Secured Medium Term Loan Programme ("MTN Programme"). Under this MTN Programme, Blossom Assets may, subject to compliance with all relevant laws, regulations and directives, from time to time issue fixed or floating interest rate notes ("the Notes"). The maximum aggregate principal amount of the Notes to be issued shall be \$3 billion (or its equivalent in any other currencies) or such higher amount as may be determined by Blossom Assets subject to certain criteria. The obligations of Blossom Assets under each series of Notes will be secured by the relevant notes security documents comprising, *inter alia*, the notes debenture, the security trust deeds and the programme debenture.

To fund the loan of \$190,085,000 to the Trustee, Blossom Assets has raised funds by issuing €95.4 million secured commercial mortgage-backed floating rate notes. The notes comprise €80.4 million class AAA and €15 million class AA notes at interest margins of between 20 to 35 basis points per annum above EURIBOR, repriced every 3 months, for the period 17 May 2006 to 17 May 2011.

In September 2008, K-REIT Asia has put in place a revolving loan facility of \$391,000,000 from Kephinance for a period of thirty months commencing from 10 September 2008 and thereafter renewable on terms, including a new maturity date to be agreed between the parties. As at 31 December 2008, the amount outstanding was \$387,611,000.

The revolving loan is due on 10 March 2011 and the floating interest rates of borrowings vary from 2.016% to 3.949% (2007: nil) per annum and are repriced every roll-over period.

The weighted average all-in funding cost including margin charged on the loans and amortised upfront costs is 3.19% (2007: 4.06%) per annum.

## 12. Units in issue

	2008 '000	2007 '000
At 1 January	<b>247,184</b>	241,610
Issue of Units:		
- payment of management fees in Units	<b>8,615</b>	1,581
- payment of acquisition fee in Units	-	3,993
- rights issue	<b>396,925</b>	-
At 31 December	<b>652,724</b>	247,184

During the year, there were the following issues of Units:

- 8,615,445 (2007: 1,580,711) Units were issued at unit prices range between \$0.9904 - \$2.1883 (2007: \$2.5339 - \$3.0707) as payment of management fees; and
- 396,925,192 Units were issued at the issue price of \$1.39 per Unit pursuant to a rights issue.

Each Unit in the Trust represents undivided interest in the Trust. The rights and interests of Unitholders are contained in the Trust Deed and include the right to:

- receive income and other distributions attributable to the Units held;
- participate in the termination of the Trust by receiving a share of all net cash proceeds derived from the realisation of the assets of the Trust less liabilities, in accordance with their proportionate interests in the Trust. However, a Unitholder has no equitable or proprietary interest in the underlying assets of the Trust and is not entitled to the transfer to it of any assets (or part thereof) or of any estate or interest in any asset (or part thereof) of the Trust; and
- attend all Unitholders' meetings. The Trustee or the Manager may (and the Manager shall at the request in writing of not less than 50 Unitholders or Unitholders representing not less than 10% of the issued Units of the Scheme) at any time convene a meeting of Unitholders in accordance with the provisions of the Trust Deed.

The restrictions of a Unitholder include, *inter alia*, the following:

- a Unitholder's right is limited to the right to require due administration of the Trust in accordance with the provisions of the Trust Deed; and
- a Unitholder has no right to request the Manager to repurchase or redeem his Units while Units are listed on SGX-ST.

The Trust Deed contains provisions designed to limit the liability of a Unitholder to the amount paid or payable for any Unit, and to ensure that no Unitholder, by reason alone of being a Unitholder, will be personally liable to indemnify the Trustee or any creditor of the Trust in the event that the liabilities of the Trust exceed its assets, if the issue price of the Units held by that Unitholder has been fully paid.

## Notes to the Financial Statements

### 13. Gross revenue

	2008 \$'000	2007 \$'000
Gross rental income	51,632	39,093
Car park income	969	924
Others	45	52
	<u>52,646</u>	<u>40,069</u>

### 14. Property expenses

	2008 \$'000	2007 \$'000
Property tax	3,355	3,140
Property management fee	1,579	1,202
Property management salary reimbursements	1,015	969
Marketing expenses	1,200	1,355
Utilities	2,030	1,578
Maintenance	3,757	3,511
Other property expenses	51	52
	<u>12,987</u>	<u>11,807</u>

### 15. Income support

Income support relates to top-up payments receivable from Boulevard for the shortfall of guaranteed income amount from the Trust's one-third interest in One Raffles Quay Pte Ltd.

### 16. Manager's management fees

All the Manager's management fees are paid in Units during the financial year.

### 17. Trust expenses

	2008 \$'000	2007 \$'000
Trustee's fees	344	132
Auditors' remuneration	93	94
Professional fees	152	300
Non-audit fees paid to auditors of the Trust	-	175
Fund raising expenses	542	841
Other Trust expenses	197	438
	<u>1,328</u>	<u>1,980</u>



**18. Borrowing costs**

	2008 \$'000	2007 \$'000
Interest expense		
- on term loans	<b>7,488</b>	7,468
- on revolving loan/bridge loan from a related company	<b>15,330</b>	1,874
Amortisation of transaction costs capitalised	<b>762</b>	240
	<b>23,580</b>	9,582

**19. Income tax expense**

	2008 \$'000	2007 \$'000
Reconciliation of effective tax rate:		
Total return before tax	<b>30,378</b>	445,653
Income tax using Singapore tax rate of 18% (2007: 18%)	<b>5,468</b>	80,218
Non-tax deductible items	<b>7,509</b>	1,580
Net gain on revaluation of investment properties	<b>(1,260)</b>	(77,934)
Share of results of associated company	<b>(2,660)</b>	(88)
Tax transparency	<b>(6,147)</b>	(3,613)
Income tax expense recognised in statement of total return	<b>2,910</b>	163

**20. Earnings per unit**

The basic earnings per unit is calculated by dividing the total return after tax and the weighted average number of units during the financial year.

	2008 \$'000	2007 \$'000
Total return after tax	<b>27,468</b>	445,490
	<b>'000</b>	<b>'000</b>
Weighted average number of units in issue during the financial year	<b>515,462</b>	252,297
Basic earnings per unit	<b>5.33 cents</b>	176.57 cents

The basic earning per unit is adjusted to account for the effect of the rights issue as mentioned in Note 12.

Diluted earnings per unit is the same as the basic earnings per unit as there are no dilutive instruments in issue during the financial year.

## Notes to the Financial Statements

### 21. Significant related party transactions

For the purposes of these financial statements, parties are considered to be related to the Trust if the Trust has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Trust and the party is subject to common significant influence. Related parties may be individuals or entities. The Manager (K-REIT Asia Management Limited) and Property Manager (K-REIT Asia Property Management Pte Ltd) are indirect wholly-owned subsidiaries of a substantial Unitholder of the Trust.

In the normal course of the operations of the Trust, the Manager's management fees and the Trustee's (RBC Dexia Trust Services Singapore Limited as trustee of K-REIT Asia) fees have been paid to the Manager and Trustee respectively.

During the financial year, other than those disclosed elsewhere in the financial statements, there were the following significant related party transactions, which were carried out in the normal course of business on arm's length commercial terms:

	2008 \$'000	2007 \$'000
Manager's management fees paid/ payable to the Manager	12,967	5,302
Acquisition fee paid to the Manager	-	9,415
Trustee's fees paid/ payable to the Trustee	344	132
Property management fees and reimbursable paid/ payable to a related company	2,597	2,171
Leasing commissions paid/ payable to a related company	1,116	925
Rental income and other related income from related companies	3,240	2,419
Acquisition of property from a related company	-	938,753
Interest on revolving/bridging loan paid to a related company	15,330	1,874
Interest income received/receivable from associated company of the Trust	8,799	690

### 22. Financial risk management objectives and policies

The Trust is exposed to credit, interest rate, liquidity and operational risks in the normal course of the Trust's business. Assessment of financial risks is carried out regularly by the Manager. The Trust does not have exposure to movements in foreign currency exchange rates as most of its income and major costs and operating expenses incurred are in Singapore dollars which is also its functional currency.

The Manager believes that good risk management practices and strong internal controls are critical components to K-REIT Asia's business. As such, the Manager reviews K-REIT Asia's risks constantly and pro-actively carries out initiatives to mitigate them. Some of the key risks that the Manager has identified are as follows:

#### (a) Credit risk

Credit risk is the potential financial loss resulting from the failure of a customer or a counterparty to settle its financial and contractual obligations to the Trust as and when they fall due.

Prior to signing any major lease agreements, credit assessments on the prospective tenants will be carried out. This is usually done by way of evaluating information from corporate searches. In addition, security deposits as a multiple of monthly rents are also collected from tenants. Furthermore, the property portfolio's tenant trade sector mix is also actively managed to avoid excessive exposure to any one potentially volatile trade sector.

The Manager has ensured appropriate terms and/or credit controls are stipulated in the agreements to ensure counterparty fulfil its obligations.

#### Exposure to credit risk

At the balance sheet date, the Trust's maximum exposure to credit risk is represented by the carrying amount of each class of financial assets recognised in the balance sheet.

#### Credit risk concentration profile

At the balance sheet date, approximately 94.1% (2007: 81.6%) of the Trust's trade and other receivables were due from related companies and associated company. These amounts have been substantially collected at the date of this report.

#### Financial assets that are neither past due nor impaired

Trade and other receivables and advances to associated company (non-trade) that are neither past due nor impaired are creditworthy debtors with good payment record. Cash and cash equivalents are placed with financial institutions with good credit rating.

### (b) **Interest rate risk**

The Trust's exposure to changes in interest rates relates primarily to interest-earning financial assets and interest-bearing financial liabilities.

Interest rate risks are managed on an on-going basis through the use of appropriate term facilities and floating positions. In addition, the interest rate environment is also closely monitored so as to identify opportunities to refinance higher cost debt where and when appropriate.

The Trust manages interest costs using a mix of fixed and floating rate debts. The details of the interest rates relating to the interest-earning financial assets and interest-bearing financial liabilities are disclosed in Notes 5, 8, 10 and 11 respectively.

#### Sensitivity analysis

At the balance sheet date, if Singapore dollars interest rates had been 75 basis points lower/ higher with all other variables constant, the Trust's total return before tax would have been \$2,556,000 (2007: \$325,000) higher/ lower, arising mainly as a result of lower/ higher interest expense on floating rate borrowings, higher/ lower interest income from short-term deposits with a financial institution and floating rate advances to the associated company. The sensitivity analysis is unrepresentative of the interest rate risk as the balance of short-term deposits at year end does not reflect the exposure during the year.

### (c) **Liquidity risk**

K-REIT Asia's cash flow position and working capital are monitored closely to ensure that there are adequate liquid reserves in terms of cash and credit facilities to meet short term obligations. Furthermore, all essential funding requirements are planned early in advance so as to manage cash position at any point of time more effectively.

The table below summarises the maturity profile and financial liabilities of the Trust at the balance sheet date.

	2008			2007		
	1 Year or Less \$'000	1 to 5 Years \$'000	Total \$'000	1 Year or Less \$'000	1 to 5 Years \$'000	Total \$'000
Trade and other payables	12,202	-	12,202	11,924	-	11,924
Security deposits	3,602	10,082	13,684	1,237	9,156	10,393
Borrowings	-	577,135	577,135	942,000	189,283	1,131,283
	<b>15,804</b>	<b>587,217</b>	<b>603,021</b>	955,161	198,439	1,153,600

## Notes to the Financial Statements

### 23. Capital management

The primary objective of the Trust's capital management is to ensure that it maintains a healthy credit rating and aggregate leverage ratio.

Under the Property Fund Guidelines of the CIS Code, the aggregate leverage should not exceed 35.0% of the Trust's deposited property. The aggregate leverage may exceed 35.0% of the Trust's deposited property (up to a maximum of 60.0%) only if a credit rating of the Trust from Fitch Inc., Moody's Investor Services or Standard and Poor's is obtained and disclosed to the public. The Trust has been assigned a first-time corporate rating of "Baa3" on 10 December 2007 by Moody's Investor Services. The Trust has complied with this requirement for the financial year ended 31 December 2008 and 2007.

The Trust's capital is represented by its Unitholders' fund as disclosed in the balance sheet. The Trust constantly monitors capital using aggregate leverage ratio, which is total gross borrowings divided by the value of its deposited properties. At the balance sheet date, the Trust has gross borrowings totalling \$581,085,000 (2007: \$1,132,085,000) and an aggregate leverage of 27.6% (2007: 53.9%).

### 24. Financial instruments

#### Fair values

The fair values of a financial instrument is the amount at which the instrument could be exchanged or settled between knowledgeable and willing parties in an arm's length transactions other than in a forced or liquidation sale.

#### Financial instruments whose carrying amount approximates fair value

The Manager has determined that the carrying amounts of cash and short term deposits, trade and other receivables, trade and other payable and short-term borrowings reasonably approximate their fair values because these are mostly short-term in nature. The carrying amount of advances to associated company reasonably approximate their fair value because they are floating rate instruments that are repriced to market interest rates on or near the balance sheet date.

#### Financial instruments carried at other than fair value

Set out below is a comparison of carrying amounts and fair values of the Trust's financial instrument that are carried in the financial statements at other than fair values as at 31 December 2008:

	Carrying Value \$'000	Fair Value \$'000
<b>Financial liabilities</b>		
Long-term borrowings (secured)	<b>189,524</b>	<b>195,565</b>
Long-term borrowings (unsecured)	<b>387,611</b>	<b>394,266</b>

The fair values of the interest-bearing liabilities are determined using discounted cash flow analysis based on the current rates for similar types of borrowing arrangements.

**25. Segment reporting**

The Trust's business is investing in real estate and real estate-related assets which are predominantly used for commercial purposes and all its existing properties are located in Singapore.

**26. Commitments**

The Trust leases out its investment properties. Non-cancellable operating lease rentals are payable as follows:

	2008 \$'000	2007 \$'000
Within 1 year	<b>55,294</b>	43,434
After 1 year but within 5 years	<b>80,455</b>	67,737
	<b>135,749</b>	111,171

**27. Financial ratios**

	2008 %	2007 %
Expenses to weighted average net assets <sup>1</sup>		
- including performance component of Manager's management fees	<b>1.11</b>	1.27
- excluding performance component of Manager's management fees	<b>0.92</b>	1.11
Portfolio turnover rate <sup>2</sup>	-	-

<sup>1</sup> The annualised ratios are computed in accordance with the guidelines of Investment Management Association of Singapore. The expenses used in the computation relate to the trust expenses, excluding property expenses, amortisation expense and borrowing costs.

<sup>2</sup> The annualised ratio is computed based on the lesser of purchases or sales of underlying investment properties of the Trust expressed as a percentage of weighted average net asset value.

**28. Subsequent events****(a) Distribution to Unitholders**

Subsequent to the financial year ended 31 December 2008, the Manager declared a distribution of \$33,063,000 for the period from 1 July 2008 to 31 December 2008.

**(b) Establishment of Medium Term Note Programme**

On 19 January 2009, the Trust established a \$1 billion multi-currency medium term note programme through a newly incorporated wholly-owned subsidiary, K-REIT Asia MTN Pte. Ltd., to provide it with an additional source of funding and greater flexibility to manage capital requirements.

# Additional Information

## Interested Person Transactions

The transactions entered into with interested persons during the financial year which fall under the Listing Manual of the SGX-ST and the CIS code are as follows:

Name of interested person	Aggregate value of all interested person transactions during the financial year under review (excluding transaction of less than \$100,000 each)	\$'000
Keppel Corporation and its subsidiaries or associates		
- Manager's management fees		12,967
- Property management fees and reimbursables		2,597
- Leasing commissions		1,116
- Rental and service charge income <sup>1</sup>		1,411
- Interest on revolving loan		38,514
RBC Dexia Trust Services Singapore Limited		
- Trustee's fees		344

<sup>1</sup> The aggregate value of interested person transactions refers to the total contract sum entered into during the financial year.

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

SGX-ST has granted a waiver to K-REIT Asia from Rules 905 and 906 of the SGX-ST's Listing Manual in relation to payments for Manager's management fees, payments of property management fees, reimbursements and leasing commissions to the Property Manager in respect of payroll and related expenses as well as payments of the Trustee's fees. Such payments are not to be included in the aggregate value of total interested person transactions as governed by Rules 905 and 906 of the Listing Manual. In addition, certain other interested person transactions as outlined in the Introductory Document dated 20 March 2006 are deemed to have been specifically approved by the Unitholders and are therefore not subject to Rules 905 and 906 of the Listing Manual insofar, in respect of each such agreement, there are no subsequent change to the rates and/or basis of the fees charged thereunder which will adversely affect K-REIT Asia.

Please also see significant related party transactions on Note 21 in the financial statements.

## Subscription of K-REIT Asia Units

During the financial year ended 31 December 2008, K-REIT issued 8,615,445 new Units as payment of management fees and 396,925,192 new Units pursuant to a rights issue exercise. As at 31 December 2008, an aggregate of 652,724,165 Units were in issue and outstanding.



**K-REIT Asia Management Limited**

1 HarbourFront Avenue  
#18-01 Keppel Bay Tower  
Singapore 098632  
Tel: (65) 6835 7477  
Fax: (65) 6835 7747  
Email: [investor.relations@kreitasia.com](mailto:investor.relations@kreitasia.com)  
[www.kreitasia.com](http://www.kreitasia.com)

Co Reg No: 200411357K