

# Corporate Governance

The Manager of Mapletree Logistics Trust (“MLT”) is responsible for the strategic direction and management of the assets and liabilities of MLT and its subsidiaries (collectively, the “Group”). As a REIT manager, the Manager is licensed by the Monetary Authority of Singapore (the “MAS”) and holds a Capital Markets Services Licence for REIT management (“CMS Licence”).

The Manager discharges its responsibility for the benefit of MLT and its unitholders (“Unitholders”), in accordance with the applicable laws and regulations as well as the trust deed constituting MLT (the “Trust Deed”). To this end, the Manager sets the strategic direction of the Group and gives recommendations to HSBC Institutional Trust Services (Singapore) Limited, in its capacity as trustee of MLT (the “Trustee”), on the acquisition, divestment and enhancement of assets of the Group.

The Manager’s roles and responsibilities include:

- carrying out and conducting the Group’s business in a proper and efficient manner and conducting all transactions with or for the Group on an arm’s length basis and on normal commercial terms;
- preparing annual budget proposal with forecast on gross revenue, property expenditure, capital expenditure and providing explanations on major variances against prior year’s actual results and written commentaries on key issues and any other relevant assumptions. The purposes of such proposals and analyses are to chart the Group’s business for the year ahead and to explain the performance of MLT’s properties compared to the prior year; and
- ensuring compliance with applicable laws and regulations, including the Securities and Futures Act (Chapter 289 of Singapore), the Listing Manual of Singapore Exchange Securities Trading Limited (the “SGX-ST”), the Code on Collective Investment Schemes, the Singapore Code on Takeovers and Mergers, the Trust Deed, the conditions of the CMS Licence and any tax rulings.

The Manager is committed to complying with the substance and spirit of the Code of Corporate Governance 2012 (the “Code”). The following describes the main corporate governance policies and practices of the Manager with reference to the Code and, where there are any deviations from the principles and guidelines of the Code, provides explanations for such deviations.

## (A) BOARD MATTERS

### The Board’s Conduct of Affairs

#### *Principle 1: Effective Board*

#### **Our Policy and Practices**

The Manager adopts the principle that an effective Board of Directors (the “Board”) for the Manager is one which is constituted with the right core competencies and diversity of experience, so that the collective wisdom of the Board can give guidance and provide insights as well as strategic thinking to the management team of the Manager (“Management”).

The key roles of the Board are to:

- guide the corporate strategy and direction of the Manager;
- ensure that the senior management of the Manager discharges business leadership and demonstrates the highest quality of management with integrity and enterprise; and
- oversee the proper conduct of the Manager.

The positions of Chairman and Chief Executive Officer (“CEO”) are held by two separate persons in order to maintain effective oversight. The Board has also established the Audit and Risk Committee (the “AC”) and the Nominating and Remuneration Committee (the “NRC”), each of which operates under delegated authority from the Board, to assist the Board in discharging its oversight function.

The Board comprises eleven Directors, of whom ten are Non-Executive Directors and six are Independent Directors.

The following sets out the composition of the Board:

- Mr Paul Ma Kah Woh, Chairman and Non-Executive Director
- Mr Tan Ngiam Joo, Chairman of the Audit and Risk Committee and Independent Non-Executive Director
- Mr Cheah Kim Teck, Member of the Audit and Risk Committee and Independent Non-Executive Director
- Mr Pok Soy Yoong, Member of the Audit and Risk Committee and Independent Non-Executive Director
- Mr Wee Siew Kim, Member of the Audit and Risk Committee and Independent Non-Executive Director
- Mrs Penny Goh, Chairperson of the Nominating and Remuneration Committee and Lead Independent Non-Executive Director
- Mr Tarun Kataria, Member of the Nominating and Remuneration Committee and Independent Non-Executive Director
- Mr Hiew Yoon Khong, Member of the Nominating and Remuneration Committee and Non-Executive Director
- Mr Wong Mun Hoong, Non-Executive Director
- Mr Chua Tiow Chye, Non-Executive Director
- Ms Ng Kiat, Executive Director and Chief Executive Officer

The Board comprises business leaders and distinguished professionals with financial, banking, fund management, real estate, legal, investment and accounting experience.

The diverse professional backgrounds of the Directors enable Management to benefit from their external, varied and objective perspectives on issues brought before the Board for discussion and deliberation. Each Director is appointed on the strength of his or her calibre, experience, stature, and potential to give proper guidance to Management for the business of the Group. The profiles of the Directors are set out in pages 22 to 25 of this Annual Report. The Board is of the view that the present principal directorships included in their individual profiles are sufficient in informing Unitholders of their principal commitments. The Board meets regularly, at least once every quarter, to review the business performance and outlook of the Group and deliberate on business strategy, including any significant acquisitions, disposals, fund-raising and development projects undertaken by the Group.

The meeting attendance of the Board, the AC and the NRC for FY2015/16 is as follows:

		Board	Audit and Risk Committee	Nominating and Remuneration Committee
<b>Number of meetings held in FY2015/16</b>		6	5	1
Board Members	Membership			
Mr Paul Ma Kah Woh (Appointed on 16 May 2005) (Last reappointment on 21 September 2015)	Chairman and Non-Executive Director	6	N.A. <sup>1</sup>	N.A. <sup>1</sup>
Mr Tan Ngiap Joo (Appointed on 15 June 2009) (Last reappointment on 22 September 2014)	Chairman of the Audit and Risk Committee and Independent Non-Executive Director	6	5	N.A. <sup>1</sup>
Mr Cheah Kim Teck (Appointed on 16 May 2005) (Last reappointment on 22 September 2014)	Member of Audit and Risk Committee and Independent Non-Executive Director	6	5	N.A. <sup>1</sup>
Mr Pok Soy Yoong (Appointed on 31 August 2009) (Last reappointment on 21 September 2015)	Member of Audit and Risk Committee and Independent Non-Executive Director	6	5	N.A. <sup>1</sup>
Mr Wee Siew Kim (Appointed on 1 April 2013) (Last reappointment on 20 September 2013)	Member of Audit and Risk Committee and Independent Non-Executive Director	4	4	N.A. <sup>1</sup>
Mrs Penny Goh (Appointed on 31 March 2011) (Last reappointment on 22 September 2014)	Chairperson of the Nominating and Remuneration Committee and Lead Independent Non-Executive Director	6	N.A. <sup>1</sup>	1
Mr Tarun Kataria (Appointed on 1 September 2013) (Last reappointment on 20 September 2013)	Member of the Nominating and Remuneration Committee and Independent Non-Executive Director	6	2 <sup>2</sup>	1
Mr Hiew Yoon Khong (Appointed on 16 May 2005) (Last reappointment on 21 September 2015)	Member of the Nominating and Remuneration Committee and Non-Executive Director	6	N.A. <sup>1</sup>	1
Mr Wong Mun Hoong (Appointed on 15 July 2006) (Last reappointment on 21 September 2015)	Non-Executive Director	6	5 <sup>2</sup>	N.A. <sup>1</sup>
Mr Chua Tiow Chye (Appointed on 19 January 2005) (Last reappointment on 22 September 2014)	Non-Executive Director	6	N.A. <sup>1</sup>	N.A. <sup>1</sup>
Ms Ng Kiat (Appointed on 2 October 2012) (Last reappointment on 20 September 2013)	Executive Director and Chief Executive Officer	6	5 <sup>2</sup>	1 <sup>2</sup>

<sup>1</sup> N.A. means not applicable.

<sup>2</sup> Attendance was by invitation.

# Corporate Governance

The Board has also approved a set of delegations of authority which sets out approval limits for investments and divestments, development, operational and capital expenditures and treasury activities to be undertaken by the Group. Approval sub-limits are also provided at various management levels to facilitate operational efficiency as well as provide a system of checks and balances.

The Board's approval is required for material transactions to be undertaken by the Group, including the following:

- equity fund-raising;
- acquisition, development and disposal of properties above Board-prescribed limits;
- overall project budget variance and *ad hoc* development budget above Board-prescribed limits;
- debt fund-raising above Board-prescribed limits; and
- derivative contracts above Board-prescribed limits.

Each Director is given a formal letter of appointment setting out his or her duties and obligations under the relevant laws and regulations governing the Manager and the Group. The Manager also has in place an orientation program to brief new Directors on the Group's business, strategic directions, risk management policies, the regulatory environment in which the Group operates and the governance practices of the Group and the Manager. The Board is updated on any material change to relevant laws, regulations and accounting standards by way of briefings by professionals or by updates issued by Management. Individual Directors are also afforded opportunities for continuing education in relevant areas, so as to enhance their performance as directors.

## Board Composition and Guidance

*Principle 2: Strong and independent element on the Board*

### Our Policy and Practices

The Manager adopts the principle that at least one-third of its Directors shall be independent if the Chairman is an independent director and at least half of its Directors shall be independent if the Chairman is not an independent director, and the majority of its Directors shall be non-executive. The Manager believes a board composition with a strong and independent element will allow the Directors to engage in robust deliberations with Management and provide external, diverse and objective insights on issues brought before the Board for discussion and deliberation. Further, such a board composition, and the separation of the roles of the Chairman and the CEO, provides oversight to ensure that Management discharges its roles and responsibilities effectively and with integrity.

For FY2015/16, each of the Independent Directors had carried out an assessment on whether there were any relationships or circumstances which may impact his or her independent status. Accordingly, each of the Independent Directors had either made a negative declaration or disclosed such relationships or circumstances as applicable. The declarations or disclosures made by each Independent Director had been reviewed by the NRC.

As Mr Cheah Kim Teck has been appointed to the Board for more than nine years, the Board has carried out a rigorous review of his independence. The Board noted that there has not been any interested person transaction involving Mr Cheah Kim Teck and, based on his objective and independent contributions to Board discussions, the Board is of the view that Mr Cheah Kim Teck should be considered to be independent.

Based on a review of the relationships between the Directors and the Group and declaration of independence by the Independent Directors, the Board considers the following Directors to be independent:

- Mr Tan Ngiap Joo;
- Mr Cheah Kim Teck;
- Mr Pok Soy Yoong;
- Mr Wee Siew Kim;
- Mrs Penny Goh; and
- Mr Tarun Kataria.

In view of the above, more than half of the Board comprises Independent Directors, which is in line with the Code that provides that independent directors should make up at least half of the Board where the Chairman of the Board is not an independent director.

## Chairman and Chief Executive Officer

*Principle 3: Clear division of responsibilities*

### Our Policy and Practices

The Manager adopts the principle of clear separation of the roles and responsibilities between the Chairman of the Board and the CEO of the Manager. The Chairman guides the Board in constructive debates on the Group's strategic direction, management of its assets and governance matters. He is non-executive and is free to act objectively in the best interests of the Manager and Unitholders.

The Chairman and the CEO are not related to each other. The CEO is responsible for the running of the Group's business operations. She has full executive responsibilities over the business and operational decisions of the Group. The CEO is also responsible for ensuring the Group's and the Manager's compliance with the applicable laws and regulations in its day-to-day operations.

As the Chairman is not an independent director, in accordance with Guideline 3.3 of the Code, Mrs Penny Goh has been appointed as the Lead Independent Director of the Manager with effect from 25 January 2016. The principal responsibilities of the Lead Independent Director are to act as chairman of the Board when matters concerning the Chairman are to be considered, and to be available to the Board and Unitholders for communication of unitholders' concerns when other channels of communication through the Chairman or CEO are inappropriate.

### Board Membership

*Principle 4: Formal and transparent process for appointments*

#### Our Policy and Practices

The Manager adopts the principle that Board renewal is an ongoing process to ensure good governance and to remain relevant to the changing needs of the Manager and the Group's business.

The Board established the NRC in January 2016 and prior to that, the functions of a nominating committee were undertaken by the Board. The NRC comprises three Directors, being Mrs Penny Goh, Mr Tarun Kataria and Mr Hiew Yoon Khong, all non-executive and the majority (including the Chairperson) of whom are independent. Mrs Penny Goh is the Chairperson of the NRC and the Lead Independent Director of the Manager.

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

- the appointment and re-appointment of Board and committee members;
- the appointment of the Executive Director and CEO and the framework for the appointment of senior management executives of the Manager, as well as the succession plan and framework for the Executive Director and CEO and senior management executives of the Manager;
- training and professional development programmes for the Board;
- the process for evaluating Board performance; and
- the determination, on an annual basis and as and when circumstances require, of the independent status of a Director, bearing in mind the relevant guidelines of the Code as well as any other applicable regulations and guidelines and salient factors.

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

- the Chairman of the Board should be a non-executive director of the Manager;
- the Board should comprise directors with a broad range of commercial experience including expertise in funds management, law, finance, audit, accounting and real estate; and
- at least one-third of the Board should comprise independent directors if the Chairman is an independent director and at least half of the Board should comprise independent directors if the Chairman is not an independent director.

The Manager does not, as a matter of policy, limit the maximum number of listed company board representations its Board members may hold as long as each of the Board members is able to commit his or her time and attention to the affairs of the Group, including attending Board and Board committee meetings and contributing constructively to the management of the Manager and the Group. The Manager believes that each Director is best placed to decide whether he or she has sufficient capacity to discharge his or her duties and responsibilities as Director in the best interests of the Manager and Unitholders. Taking into account the meeting attendance records of the Directors in FY2015/16 as well as the contribution and performance of each individual Director at such meetings, the Board is satisfied that all the Directors have been able to carry out their duties as Director notwithstanding their principal commitments.

All appointments and resignations of Board members are approved by the Board. From January 2016, with the establishment of the NRC, such appointments and resignations of Board members must also first be approved by the NRC. As a principle of good corporate governance, all Board members are required to submit themselves for re-nomination and re-election at regular intervals. The CEO, as a Board member, is also subject to retirement and re-election.

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## Board Performance

*Principle 5: Formal assessment of the effectiveness of the Board*

### Our Policy and Practices

The Manager adopts the principle that the Board's performance is ultimately reflected in the performance of the Manager and the Group.

To assess the performance of the Board and the Board committees, the Manager conducts confidential board effectiveness surveys on a bi-yearly basis. The last effectiveness survey of the Board and the AC was undertaken in April 2014 (but not for the NRC as it was only established in January 2016), with the findings evaluated by the Board in July 2014. Based on those findings, the Board was of the view that it had met its performance objectives.

The Manager has started conducting board effectiveness surveys for the Board and the AC in 2016, with the assistance from the NRC. To this end, the NRC will assist the Board in (amongst other things) the assessment of the effectiveness of the Board, by reviewing the performance evaluation process and making recommendation to the Board.

## Access to Information

*Principle 6: Complete, adequate and timely access to information*

### Our Policy and Practices

The Manager adopts the principle that the Board shall be provided with timely and complete information prior to Board meetings as well as when the need arises.

Management is required to provide adequate and timely information to the Board, which includes matters requiring the Board's decision as well as ongoing reports relating to the operational and financial performance of the Group. Management is also required to furnish any additional information requested by the Board in a timely manner in order for the Board to make informed decisions.

The Board has separate and independent access to Management and the Company Secretary.

The Company Secretary attends to the administration of corporate secretarial matters and advises the Board on governance matters. The Company Secretary also attends all Board and Board committee meetings and provides assistance to the Chairman in ensuring adherence to Board procedures.

The Board takes independent professional advice as and when necessary to enable it and/or the Independent Directors to discharge their responsibilities effectively. The AC meets the external and internal auditors separately at least once a year, without the presence of Management.

## (B) REMUNERATION MATTERS

### Procedures for Developing Remuneration Policies

*Principle 7: Formal and transparent procedure for fixing the remuneration of Directors*

### Level and Mix of Remuneration

*Principle 8: Appropriate level of remuneration*

### Disclosure on Remuneration

*Principle 9: Clear disclosure of remuneration matters*

### Our Policy and Practices

The Manager adopts the principle that remuneration matters should be sufficiently structured and benchmarked with good market practices to attract qualified talent to grow and manage its business.

The Manager adopts the principle that remuneration for the Board and senior management should be viewed in totality. The remuneration structure supports the continuous development of the management bench strength to ensure robust talent management and succession planning.

In January 2016, the Board established the NRC which comprises three Directors, being Mrs Penny Goh, Mr Tarun Kataria and Mr Hiew Yoon Khong, all non-executive and the majority (including the Chairperson) of whom are independent. Mrs Penny Goh is the Chairperson of the NRC and the Lead Independent Director of the Manager.

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

- the framework of remuneration for the Directors, Executive Director and CEO and senior management executives of the Manager, including all option plans, stock plans and the like as well as the performance hurdles of such plans;
- the specific remuneration package for the Executive Director and CEO of the Manager; and
- the termination payment, gratuities, severance payment and other similar payments to the Executive Director and CEO of the Manager.

As the NRC was established recently in the fourth quarter of FY2015/16, for FY2015/16, the Manager, as a subsidiary of Mapletree Investments Pte Ltd who is the sponsor of MLT (the “Sponsor”), took reference from the remuneration policies and practices of the Sponsor in determining the remuneration of the Manager’s Board and key executives, and the Sponsor’s Executive Resources and Compensation Committee (the “Sponsor’s ERCC”) served the crucial role of helping to ensure that the Manager could recruit and retain the best talent to drive its business forward. In deciding to refer to the Sponsor’s remuneration policies and practices which are overseen by the Sponsor’s ERCC, the Manager had carefully considered the suitability of such policies and practices, and deemed them to be appropriate taking into account the circumstances of the Manager and the Group as well as the benefits of tapping into the Sponsor’s compensation framework.

From FY2016/17 onwards, the NRC, in performing the functions of a remuneration committee, will support the Board in the Manager’s remuneration matters in accordance with the NRC’s written terms of reference. In this regard and following the new directions and guidelines from the MAS on the remuneration of directors and key executive officers of REIT managers, the Board with the assistance of the NRC is in the midst of reviewing the remuneration objectives, policies and procedures applicable to the Manager, with a view to aligning them with the substance and spirit of such directions and guidelines from the MAS.

The members of the Sponsor’s ERCC are:

- Mr Edmund Cheng Wai Wing (Chairman);
- Mr Paul Ma Kah Woh (Member); and
- Ms Chan Wai Ching, Senior Managing Director, Temasek International Pte. Ltd. (Co-opted Member).

All the members of the Sponsor’s ERCC are independent of Management. During FY2015/16, the Sponsor’s ERCC oversaw executive compensation and development of the management bench strength, so as to build a capable and dedicated management team and give guidance on progressive policies which could attract, motivate and retain a pool of talented executives for the present and future growth of the Manager.

Specifically, up to and for FY2015/16, the Sponsor’s ERCC, with the assistance of compensation consultants where necessary:

- established compensation policies for key executives;
- approved salary reviews, bonuses and incentives for key executives;
- approved key appointments and reviewed succession plans for key positions; and
- oversaw the development of key executives and younger talented executives.

The key objectives and features of the Manager’s policy on the remuneration of its Directors are as follows:

- the level of directors’ fees should be appropriate (but not excessive) to attract and motivate the Directors to provide good stewardship of the Manager and the Group;
- directors’ fees are established annually and subject to the approval of the Manager’s shareholder;
- each Director is paid a basic fee and, in addition, to ensure that each Director’s fees are commensurate with his or her responsibilities and time spent, Directors who perform additional services through the Board committees are paid additional fees for such services;
- Non-Executive Directors who are employees of the Sponsor do not receive any director’s fees in their capacity as Directors, and the CEO also does not receive any directors’ fees in her capacity as a Director; and
- no Director is involved in deciding his or her own remuneration.

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The key objectives and features of the Manager's policy on the remuneration of its executives are as follows:

- the level and structure of executive remuneration should be competitive (but not excessive) to attract, motivate and retain a pool of talented executives for the present and future growth of the Manager; and
- executive remuneration should be performance-related with a view to promoting the long-term success and sustainability of the Manager and the Group.

Directors' fees are paid entirely in cash. In respect of the CEO's remuneration, her compensation comprises a salary, allowances, bonuses and share appreciation awards from the Sponsor. The latter is conditional upon her meeting certain performance targets. The CEO is not present during the discussions relating to her own compensation and terms and conditions of service, and the review of her performance. However, the Board reviews the CEO's performance and shares with the CEO their views of her performance. In accordance with the directions and guidelines from the MAS on the remuneration of key executive officers of REIT managers, the Board will, with the assistance of the NRC, review the CEO's specific remuneration package to ensure its compliance with the substance and spirit of such directions and guidelines from the MAS.

The remuneration of the Board and the employees of the Manager is paid by the Manager from the fees which it receives from MLT and not paid by MLT. The Manager has set out in the table below information on the fees paid to the Directors for FY2015/16:

Board Members	Membership	Fees Paid in FY2015/16
Mr Paul Ma Kah Woh	Chairman and Non-Executive Director	S\$115,000.00
Mr Tan Ngiap Joo	Chairman of the Audit and Risk Committee and Independent Non-Executive Director	S\$95,000.00
Mr Cheah Kim Teck	Member of Audit and Risk Committee and Independent Non-Executive Director	S\$82,500.00
Mr Pok Soy Yoong	Member of Audit and Risk Committee and Independent Non-Executive Director	S\$82,500.00
Mr Wee Siew Kim	Member of Audit and Risk Committee and Independent Non-Executive Director	S\$82,500.00
Mrs Penny Goh	Chairperson of Nominating and Remuneration Committee and Lead Independent Non-Executive Director	S\$55,000.00 <sup>1</sup>
Mr Tarun Kataria	Member of Nominating and Remuneration Committee and Independent Non-Executive Director	S\$55,000.00 <sup>1</sup>
Mr Hiew Yoon Khong	Member of Nominating and Remuneration Committee and Non-Executive Director	Nil <sup>2</sup>
Mr Wong Mun Hoong	Non-Executive Director	Nil <sup>2</sup>
Mr Chua Tiow Chye	Non-Executive Director	Nil <sup>2</sup>
Ms Ng Kiat	Executive Director and Chief Executive Officer	Nil <sup>3</sup>

<sup>1</sup> This excludes director's fees for serving on the NRC. No such director's fees were paid for in FY2015/16.

<sup>2</sup> Non-Executive Directors who are employees of the Sponsor do not receive any director's fees in their capacity as Directors.

<sup>3</sup> The CEO does not receive any director's fees in her capacity as a Director.

The Manager is cognisant of the requirement in the "Notice to All Holders of a Capital Markets Services Licence for Real Estate Investment Trust Management" to disclose: (a) the remuneration of its CEO and each individual Director on a named basis; and (b) the remuneration of at least its top five executive officers (other than the CEO and executive officers who are Directors), on a named basis, in bands of S\$250,000. The Manager is also cognisant of the requirement of the Code to disclose in aggregate the total remuneration paid to its top five key management personnel (who are not Directors or the CEO).

The Board had assessed and decided against the disclosure of: (a) the remuneration of the CEO and its top five executive officers on a named basis, whether in exact quantum or in bands of S\$250,000; and (b) the aggregate remuneration paid to its top five key management personnel, for the following reasons:

- the REIT management industry is highly competitive and the pool of qualified candidates is limited, and such disclosure may give rise to recruitment and talent retention issues for the Manager because of the possibility of poaching by other competitors. Given that the retention of the Manager's CEO and key management personnel is crucial to the continuity and stability of the Group's business and operations, the Board is of the view that the loss of talent at the Management level due to poaching may cause undue disruptions to the management of the Group's business;
- remuneration matters for the CEO and each of the executive officers are highly confidential and sensitive matters; and
- the remuneration of the Manager's CEO and employees is paid out of the fees which the Manager receives from MLT and such fees payable to the Manager have already been disclosed in this Annual Report.

In this regard, the Board is of the view that the non-disclosure of the remuneration of the CEO and its top five key executive officers whether on an individual or aggregate basis, would not prejudice the interests of Unitholders.

There were no employees of the Manager who were immediate family members of a Director or the CEO of the Manager and whose remuneration exceeded S\$50,000 during FY2015/16.

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

### **Accountability**

*Principle 10: Balanced and understandable assessment of the company's performance, position and prospects*

#### **Our Policy and Practices**

The Manager adopts the principle that to build confidence among stakeholders, there is a need to deliver sustainable value.

The Manager complies with statutory and regulatory requirements and adopts best practices in the Group's business processes. The Manager also updates the Board on the Group's performance and its business and market outlook on a regular basis, so as to enable the Board to make a balanced and informed assessment of the Group's performance, financial position and prospects.

### **Risk Management and Internal Controls**

*Principle 11: Sound system of risk management and internal controls*

#### **Our Policy and Practices**

The Manager adopts the principle that a sound system of internal controls and risk management is necessary for the Group's business.

The Manager, working with the Sponsor, has established internal control and risk management systems that address key operational, financial, compliance and information technology risks relevant to the Group's business and operating environment. These systems provide reasonable but not absolute assurance on the achievement of their intended internal control and risk management objectives.

The key elements of the Group's internal control and risk management systems are as follows:

#### **Operating Structure**

The Manager has a well-defined operating structure with clear lines of responsibility and delegated authority, as well as reporting mechanisms to senior management and the Board. This structure includes certain functions, such as Human Resources, Information Systems & Technology, Internal Audit, Legal and Risk Management, which are outsourced to the Sponsor. The Manager also conducts an annual review of such outsourced functions to ensure required performance standards are met.



# Corporate Governance

## Policies, Procedures and Practices

Controls are detailed in formal procedures and manuals. For example, the Board has approved a set of delegations of authority which sets out approval limits for investments and divestments, development, operational and capital expenditures and treasury activities. Approval sub-limits are also provided at various management levels to facilitate operational efficiency as well as provide a system of checks and balances.

The Board's approval is required for material transactions, including the following:

- equity fund-raising;
- acquisition, development and disposal of properties above Board-prescribed limits;
- overall project budget variance and *ad hoc* development budget above Board-prescribed limits;
- debt fund-raising above Board-prescribed limits; and
- derivative contracts above Board-prescribed limits.

The Group's procedures and practices are regularly reviewed and revised where necessary to enhance controls and efficiency. The Group has implemented a Control Self Assessment programme to promote accountability, control and risk ownership to cultivate a stronger sense of risk awareness and compliance with internal controls within the Group.

The Internal Audit function, which is outsourced to the Sponsor, reviews the Group's compliance with the control procedures and policies established within the internal control and risk management systems. The Internal Audit function is also involved in the validation of the results from the Control Self Assessment programme.

## Whistle-blowing Policy

To reinforce a culture of good business ethics and governance, the Manager has a Whistle-blowing Policy to encourage the reporting, in good faith, of any suspected improper conduct, including possible financial irregularities, while protecting the whistle-blowers from reprisals. The AC Chairman is notified of any reported incidents involving the Group or the Manager and, if further investigations are warranted, the AC Chairman may direct that independent investigations be conducted. The findings of such investigations are then provided to the AC for their deliberation and determination of the appropriate follow-up action to be taken.

## Risk Management

Risk management is an integral part of business management by the Manager. In order to safeguard and create value for Unitholders, the Manager proactively manages risks and incorporates the risk management process into the Manager's planning and decision making process.

The Risk Management function which is outsourced to the Sponsor's Risk Management Department oversees the Enterprise Risk Management ("ERM") framework, which enables the Manager to assess, mitigate and monitor key risks. The Risk Management Department reports to the AC and the Board independently, on a quarterly basis, on key risk exposures, portfolio risk profile and activities in respect of significant risk matters.

The risk management system established by the Manager, which encompasses the ERM framework and the risk management process, is dynamic and evolves with the business. The Manager has identified key risks, assessed their likelihood and impact on MLT's business, and established corresponding mitigating controls. The information is maintained in a risk register that is reviewed and updated regularly. The Risk Management function works closely with the Manager to review and enhance the risk management system to be in line with market practices and regulatory requirements.

The Manager's policies and procedures relating to risk management can be found on pages 45 to 47 of this Annual Report.

## Information Technology ("IT") Controls

As part of the Group's risk management process, IT controls have been put in place and are periodically reviewed to ensure that IT risks and cyber-security threats are identified and mitigated. In addition, as part of the Manager's business continuity plan, IT disaster recovery planning and tests are conducted to ensure that critical IT systems remain functional in a crisis situation.

## Financial Reporting

The Board is updated on a quarterly basis on the Group's financial performance. The Manager reports on significant variances in financial performance, in comparison with budgets and financial performance of corresponding periods in the preceding year and provides an updated full year forecast. In addition, the Board is provided with quarterly updates on key operational activities of the Group.

A management representation letter is provided by the Manager in connection with the preparation of the Group's financial statements which are presented to the AC and Board quarterly. The representation letter is supported by declarations made individually by the various Heads of Department. Compliance checklists on announcement of financial statements, which are required for submission to the SGX-ST, are reviewed and confirmed by the Chief Financial Officer ("CFO") of the Manager.

The Group's financial results are prepared in accordance with the Statement of Recommended Accounting Practice 7 "Reporting Framework for Unit Trusts" and are reported to Unitholders quarterly in accordance with the requirements of the SGX-ST. These results announcements provide analyses of significant variances in financial performance and commentary on the industry's competitive conditions in which the Group operates and any known factors or events that may affect the Group in the next reporting period and the next twelve months.

Detailed disclosure and analysis of the full year financial performance of the Group can be found in this Annual Report.

### Financial Management

Management reviews the performance of the MLT portfolio properties on a monthly basis in order to maintain the financial and operational discipline of the Group.

The key financial risks which the Group is exposed to include interest rate risk, liquidity risk, currency risk and credit risk. Where appropriate, the Manager procures hedging transactions to be entered into so as to protect the Group against interest and/or currency rate fluctuations. In addition, the Manager proactively manages liquidity risk by ensuring that sufficient working capital lines and loan facilities are maintained for the Group. The Manager's capital management strategy can be found on pages 52 to 53 of this Annual Report. The Manager also has in place credit control procedures for managing tenant credit risk and monitoring of arrears collection.

### Internal Audit

The Internal Audit ("IA") function, which is outsourced to the Sponsor's Internal Audit Department, prepares a risk-based audit plan annually to review the adequacy and effectiveness of the Group's system of internal controls and this audit plan is approved by the AC before execution. The IA is also involved during the year in conducting *ad hoc* audits and reviews that may be requested by the AC or Management on specific areas of concern. In doing so, the IA obtains reasonable assurance that business objectives for the process under review are being achieved and key control mechanisms are in place.

Upon completion of each review, a formal report detailing the audit findings and the appropriate recommendations is issued to the AC. The IA monitors and reports on the timely implementation of the action plans to Management and the AC on a quarterly basis.

The external auditors provide an independent perspective on certain aspects of the internal financial controls system arising from their work and report their findings to the AC on an annual basis. The external auditors are also updated on the findings of the Manager's Control Self-Assessment programme.

### Interested Person Transactions

All interested person transactions are undertaken on normal commercial terms and the AC regularly reviews all interested person transactions to ensure compliance with the internal control system as well as with relevant provisions of the Listing Manual and Appendix 6 of the Code on Collective Investment Schemes issued by the MAS (the "Property Funds Appendix"). In addition, the Trustee has the right to review such transactions to ascertain that the Property Funds Appendix has been complied with.

The following procedures are also undertaken:

- transactions (either individually or as part of a series or if aggregated with other transactions involving the same interested person during the same financial year) equal to or exceeding S\$100,000 in value but below 3.0% of the value of the Group'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 person during the same financial year) equal to or exceeding 3.0% but below 5.0% of the value of the Group's net tangible assets will be subject to the review and prior 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 person during the same financial year) equal to or exceeding 5.0% of the value of the Group's net tangible assets will be reviewed and approved prior to such transactions being entered into, 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 Listing Manual and the Property Funds Appendix, such transactions would have to be approved by the Unitholders at a meeting of the Unitholders.

# Corporate Governance

The interested person transactions undertaken by the Group in FY2015/16 are set out on page 183 of this Annual Report. For the purpose of the disclosures, the full contract sum is taken as the value of the transaction where the interested person transaction has a fixed term and contract value, while the annual amount incurred and/or accrued is taken as the value of the transaction where an interested person transaction has an indefinite term or where the contract sum is not specified.

## Dealing in MLT units

The Manager adopts the best practices on dealings in securities set out in the Listing Manual. All Directors are required to disclose their interests in MLT and are also provided with disclosures of interests by other Directors as well as reminders on trading restrictions.

On trading in MLT units, the Directors and employees of the Manager are reminded not to deal in MLT units on short term considerations and are prohibited from dealing in MLT units:

- in the period commencing one month before the public announcement of the Group's annual results;
- in the period commencing two weeks before the public announcement of the Group's quarterly and semi-annual results; and
- at any time whilst in possession of price-sensitive information.

Each Director is required to notify the Manager of his or her acquisition of MLT units or of changes in the number of MLT units which he or she holds or in which he or she has an interest, within two business days of such acquisition or change of interest. In addition, employees of the Manager and the Sponsor are to give pre-trading notifications before any dealing in MLT units.

## Role of the Board and AC

The Board recognises the importance of maintaining a sound internal control and risk management system to safeguard the assets of the Group and Unitholders' interests, through a framework that enables risks to be assessed and managed.

The AC provides oversight of the financial reporting risks, accounting policies and the adequacy and effectiveness of the Group's internal control and risk management system as well as its compliance system.

The Board and the AC also took into account the results from the Control Self Assessment programme, which requires the respective departments of the Manager to review and report on compliance with their key control processes.

It should be recognised that all internal control and risk management systems contain inherent limitations and take into account the need to balance the costs of implementing such controls against the benefit of such controls. Accordingly, the internal control and risk management systems can only provide reasonable but not absolute assurance.

The Board has received assurance from the CEO and the CFO that: (a) the Group's financial records have been properly maintained and the Group's financial statements give a true and fair view of the Group's operations and finances; and (b) the Group's internal control and risk management systems are effective.

## Opinion on Internal Controls

Based on the internal control and risk management systems established and maintained by the Manager and the Sponsor, work performed by the Sponsor's Internal Audit and Risk Management Departments as well as by the external auditors, reviews performed by Management and the above assurance from the CEO and the CFO, the Board, with the concurrence of the AC, is of the opinion that the Group's internal control and risk management systems, addressing key financial, operational, compliance, information technology and risk management objectives and which the Group considers relevant and material to its operations, were adequate and effective to meet the needs of the Group in its business environment as at 31 March 2016.

## Audit and Risk Committee

*Principle 12: Written terms of reference*

## Our Policy and Practices

The Board is supported by the AC which provides additional oversight of financial, risks and audit matters, so as to maximise the effectiveness of the Board and foster active participation and contribution.

The Manager adopts the principle that the AC shall have at least three members, all of whom must be non-executive and the majority of whom must be independent.

The AC consists of four members. They are:

- Mr Tan Ngiap Joo, Chairman;
- Mr Cheah Kim Teck, Member;
- Mr Pok Soy Yoong, Member; and
- Mr Wee Siew Kim, Member.

The AC has written terms of reference setting out its scope and authority, which include:

- review of annual internal and external audit plans;
- examination of interested person transactions;
- review of audit findings of internal and external auditors as well as management responses to them;
- evaluation of the nature and extent of non-audit services performed by external auditors. In this regard, for the financial year ended 31 March 2016, S\$642,000 was paid/payable to the network of member firms of PricewaterhouseCoopers International Limited (“PwC”), of which S\$595,000 was for audit services and S\$47,000 was for non-audit services relating to tax compliance and advisory services for the Group. The AC has undertaken a review of all non-audit services provided by PwC and is of the opinion that such non-audit services would not affect the independence of PwC as the external auditors;
- review of the quality and reliability of information prepared for inclusion in financial reports;
- recommendation of the appointment and re-appointment of external auditors; and
- approval of the remuneration and terms of engagement of external auditors.

In addition, the AC also:

- meets with the external and internal auditors, without the presence of Management, at least once a year to review and discuss the financial reporting process, system of internal controls (including financial, operational, compliance and information technology controls), significant comments and recommendations; and
- reviews and, if required, investigates the matters reported via the whistle-blowing mechanism, by which staff may, in confidence, raise concerns about suspected improprieties including financial irregularities.

The objective of the whistle-blowing mechanism is to ensure that arrangements are in place for independent investigations of any reported matters and reviews of such investigations, to ensure appropriate follow-up actions are taken.

A total of five AC meetings were held in FY2015/16.

The Manager, on behalf of the Group, confirms that the Group has complied with Rules 712 and 715 of the Listing Manual in relation to the Group’s auditing firm.

### Internal Audit

*Principle 13: Independent internal audit function*

#### Our Policy and Practices

The Manager adopts the principle that a robust system of internal audits is required to safeguard Unitholders’ interests, the Group’s assets, and to manage risks. Apart from the AC, other Board committees may be set up from time to time to address specific issues or risks.

The IA function of the Group is outsourced to the Sponsor’s Internal Audit Department and the Head of IA reports directly to the Chairman of the AC of both the Manager and the Sponsor.

The role of IA is to conduct internal audit work in consultation with, but independently of, Management. Its annual audit plan and audit findings are submitted to the AC. The AC also meets with the Head of IA at least once a year without the presence of Management.

The Sponsor’s Internal Audit Department is a corporate member of the Singapore branch of the Institute of Internal Auditors Inc. (the “IIA”), which has its headquarters in the USA. IA subscribes to, and is in conformance with, the Standards for the Professional Practice of Internal Auditing developed by the IIA (the “IIA Standards”) and has incorporated these standards into its audit practices.

The IIA Standards cover requirements on:

- independence and objectivity;
- proficiency and due professional care;
- managing the internal audit activity;
- engagement planning;
- performing engagement; and
- communicating results.

# Corporate Governance

IA staff involved in IT audits are Certified Information System Auditors and members of the Information System Audit and Control Association (the “ISACA”) in the USA. The ISACA Information System Auditing Standards provide guidance on the standards and procedures to be applied in IT audits.

To ensure that the internal audits are performed by competent professionals, the Sponsor’s Internal Audit Department recruits and employs qualified staff. In order that their technical knowledge remains current and relevant, IA identifies and provides training and development opportunities to the staff.

In compliance with the IIA Standards, an external quality assessment review (“QAR”) of the Sponsor’s Internal Audit Department is conducted at least once every five years by a qualified, independent reviewer. The last external QAR of IA was completed in January 2013 and the QAR concluded that the Sponsor’s Internal Audit Department was in conformance with the IIA Standards.

## (D) SHAREHOLDER RIGHTS AND RESPONSIBILITIES

### Shareholder Rights

*Principle 14: Fair and equitable treatment of all shareholders*

### Communication with Shareholders

*Principle 15: Regular, effective and fair communication with shareholders*

### Conduct of Shareholder Meetings

*Principle 16: Greater shareholder participation at annual general meetings*

### Our Policy and Practices

The Manager adopts the principle that all Unitholders should be treated fairly and equitably and their ownership rights arising from their unitholdings should be recognised.

To this end, the Manager issues via SGXNET announcements and press releases on the Group’s latest corporate developments on an immediate basis where required by the Listing Manual. Where immediate disclosure is not practicable, the relevant announcement will be made as soon as possible to ensure that all stakeholders and the public have equal access to the information.

All Unitholders are entitled to receive the annual report in digital format packaged in a compact disc with the option of receiving a printed version. The annual report encloses a notice of annual general meeting and a proxy form with instructions on the appointment of proxies. The notice of annual general meeting for each annual general meeting is also published via SGXNET. An annual general meeting is held once a year to provide a platform for Unitholders to interact with the Board and Management, in particular the Chairman of the Board, the Chairman of the AC, the CEO and the CFO. The external auditors are also present to address Unitholders’ queries about the audit and the financial statements of the Group.

Similarly, where a general meeting is convened, all Unitholders are entitled to receive a circular enclosing a proxy form with instructions on the appointment of proxies. Prior to voting at an annual general meeting or any other general meeting, the voting procedures will be made known to the Unitholders to facilitate them in exercising their votes.

Each resolution proposed at an annual general meeting and any other general meeting will be voted on by way of electronic polling. The Manager will announce the results of the votes cast for and against each resolution and the respective percentages and prepare minutes of such meetings.

The Manager has an Investor Relations Department which works with the Legal and Corporate Secretariat Department of the Sponsor to ensure the Group’s compliance with the legal and regulatory requirements applicable to listed REITs, as well as to incorporate best practices in its investor relations programme.

The Manager regularly communicates major developments in the Group’s businesses and operations to Unitholders, analysts and the media through the issuance of announcements and press releases. In addition, all announcements and press releases are first made on SGXNET and subsequently on MLT’s website.

Investors can subscribe to email alerts of all announcements and press releases issued by MLT through its website. “Live” webcast of analyst briefings are conducted, where practicable.

The Manager also communicates with MLT’s investors on a regular basis through group/individual meetings with investors, investor conferences and non-deal roadshows. The Manager’s CEO and CFO are present at briefings and communication sessions to answer questions from investors.

MLT's distribution policy is to distribute at least 90% of its taxable income, comprising substantially its income from the letting of its properties and related property service income after deduction of allowable expenses, and such distributions are typically paid on a quarterly basis. For FY2015/16, MLT made four distributions to Unitholders.

## (E) ADDITIONAL DISCLOSURE ON FEES PAYABLE TO THE MANAGER

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

Type of Fee	Clause of Trust Deed, Computation and Form of Payment	Rationale and Purpose
<b>Base Fee</b>	<p>Pursuant to Clause 15.1.1, the Manager is entitled to receive a Base Fee not exceeding the rate of 0.5% per annum of the Value of the Deposited Property.</p> <p>The Base Fee is payable quarterly in the form of cash and/or Units as the Manager may elect.</p>	<p>The Base Fee compensates the Manager for discharging its core responsibility of managing MLT and covers the costs incurred in managing MLT, which includes overheads, day-to-day operational costs, compliance, monitoring and reporting costs and administrative expenses.</p>
<b>Performance Fee</b>	<p>Pursuant to Clause 15.1.2, the Manager is entitled to receive a Performance Fee not exceeding the rate of 3.6% per annum of the Net Property Income in the relevant Financial Year.</p> <p>The Performance Fee is payable in the form of cash and/or Units as the Manager may elect.</p> <p>With effect from 15 July 2016, the Performance Fee shall be paid annually, in compliance with the Property Funds Appendix.</p>	<p>The Performance Fee which is based on the Net Property Income creates long-term value and prospects for Unitholders by incentivising the Manager to proactively focus on improving rentals and optimising operating costs of MLT's properties. Linking the performance-based element of the Manager's Management Fee to Net Property Income motivates the Manager to continuously focus on delivering core sustainable income streams from MLT's properties and take a long-term view when conceptualising and implementing asset enhancement initiatives for the properties (instead of taking excessive risks for short-term gains to the detriment of Unitholders).</p> <p>The Net Property Income is also an objective, transparent and easy-to-understand performance indicator which is reported in MLT's quarterly results announcements.</p>
<b>Acquisition Fee</b>	<p>Pursuant to Clause 15.2.1(i), the Manager is entitled to receive an Acquisition Fee not exceeding the rate of 1.0% of the acquisition price.</p> <p>Subject to the Property Funds Appendix, the Acquisition Fee is payable as soon as practicable after completion of the acquisition in the form of cash and/or Units as the Manager may elect.</p>	<p>The Acquisition Fee and Divestment Fee seek to motivate the Manager to continuously (in the case of acquisitions) pursue inorganic growth through quality yield-accretive acquisitions and (in the case of divestments) review MLT's property portfolio for asset-recycling opportunities, and compensate the Manager for the time, effort and resources expended (in the case of acquisitions) in sourcing for, evaluating and executing acquisition opportunities and (in the case of divestments) in rebalancing and unlocking the underlying value of existing properties.</p>
<b>Divestment Fee</b>	<p>Pursuant to Clause 15.2.1(ii), the Manager is entitled to receive a Divestment Fee not exceeding the rate of 0.5% of the sale price.</p> <p>Subject to the Property Funds Appendix, the Divestment Fee is payable as soon as practicable after completion of the divestment in the form of cash and/or Units as the Manager may elect.</p>	<p>The Manager provides these services over and above ongoing management services with the aim of optimising returns to Unitholders.</p> <p>The rate for the Acquisition Fee is higher than that of the Divestment Fee, so as to take into account the additional work to be undertaken by the Manager for an acquisition when compared to a divestment.</p>

## Corporate Governance

Type of Fee	Clause of Trust Deed, Computation and Form of Payment	Rationale and Purpose
<b>Development Management Fee</b>	<p>Pursuant to Clause 15.6 of the Trust Deed, the Manager is entitled to receive a Development Management Fee not exceeding the rate of 3.0% of the Total Project Costs incurred in a Development Project undertaken on behalf of MLT.</p> <p>Subject to the Property Funds Appendix, the Development Management Fee is payable in the form of cash.</p> <p>The Development Management Fee is payable in equal monthly installments over the construction period based on the Manager's best estimate of the Total Project Costs and construction period and, if necessary, a final payment of the balance amount when the Total Project Costs are finalised.</p> <p>No Acquisition Fee is payable when the Manager receives the Development Management Fee for a Development Project.</p>	<p>The Development Management Fee compensates the Manager for providing development management services to MLT in respect of its Development Projects, including:</p> <ul style="list-style-type: none"> <li>• working with consultants and other service providers in respect of the design and other activities undertaken during the pre-construction phase;</li> <li>• services performed during the construction phase, including coordinating, supervising and monitoring the performance of the contractors, consultants and other service providers; and</li> <li>• services performed at the end of and after the construction phase, including finalising project accounts and monitoring the contractors' rectification of any defects.</li> </ul>

Note:

Undefined capitalised terms used in this Section (E) shall have the meanings ascribed to them in the Trust Deed.