

**K-REIT**asía

Report to Unitholders 2006

# grow beyond



# K-REIT Asia achieved a distributable income of \$11.2 million, exceeding its forecast by 23.9%.

## Financial highlights

### Financial summary for the period from 26 April 2006 to 31 December 2006 <sup>1</sup>

	Actual \$'000	Forecast <sup>2</sup> \$'000	% change	Distribution per unit cents
Property income	23,861	21,632	10.3	26 Apr-30 Jun 2006 1.16
Net property income	16,814	15,111	11.3	0.98
Net profit before tax	8,367	6,511	28.5	26 Apr-30 Sep 2006 2.87
Taxable income available for distribution	11,174	9,021	23.9	2.35
Distributable income <sup>3</sup>	11,174	9,021	23.9	26 Apr-31 Dec 2006 4.63
Distribution per unit ("DPU")	4.63¢	3.72¢	24.5	3.72
Annualised DPU	6.76¢	5.43¢	24.5	Annualised 6.76
Distribution yield <sup>4</sup>	2.7%	2.2%	22.7	5.43

### Balance sheet as at 31 December 2006

	\$'000
Total assets	694,859
Total liabilities	202,462
Unitholders' funds	492,397
Total borrowings	190,085
Borrowings/ total assets (%)	27.4
Number of units in issue ('000)	241,610
Net asset value per unit (\$)	2.04
Market capitalisation <sup>4</sup>	604,026

### Financial ratios

Distribution per unit	4.63¢
Interest service coverage ratio	2.7 times
All-in interest rate	4.03%

■ Actual  
■ Forecast

<sup>1</sup> K-REIT Asia was established on 28 November 2005 and the acquisition of its initial properties was completed on 26 April 2006. Hence, the income and expenses relate only to the period from 26 April 2006 to 31 December 2006.

<sup>2</sup> The forecast is extracted from the Introductory Document and is based on the assumptions set out in the Introductory Document. The forecast figures are derived by prorating the forecast figures for 2006 disclosed in the Introductory Document for the period from 26 April 2006 to 31 December 2006.

<sup>3</sup> The distributable income to Unitholders is based on 100% of the taxable income available for distribution to Unitholders.

<sup>4</sup> Based on the market closing price per unit of \$2.50 as at the last trading day, 29 December 2006.

## Chairman's statement

**K-REIT Asia's objective is to deliver stable and sustainable returns to Unitholders and its unit price performance during the year affirms investors' confidence in K-REIT Asia's growth potential.**



### **Dear Unitholders,**

On behalf of the Board and management, I am pleased to present K-REIT Asia's first annual report for the financial period ended 31 December 2006.

K-REIT Asia was established with the objective of generating stable returns to Unitholders by owning and investing in a portfolio of quality real estate and real estate-related assets which are income producing and are predominantly used for commercial purposes. Sponsored by Keppel Land, K-REIT Asia's initial portfolio consists of four prime office buildings – Prudential Tower (approximately 44.4% of the strata area of the building), Keppel Towers, GE Tower and Bugis Junction Towers. The initial portfolio value of \$630.7 million was revalued at \$677 million as at end-2006.

### **Performance exceeds forecasts**

For the period from 26 April to 31 December 2006, K-REIT Asia achieved a distributable income of \$11.2 million, exceeding its forecast by 23.9%. Net property income exceeded forecast by 11.3% to reach \$16.8 million. K-REIT Asia's annualised distribution per unit was 6.76 cents, outperforming its forecast by 24.5%. Net asset value also improved from \$1.82 per Unit at end-September 2005 to \$2.04 per Unit at end-2006, after taking into account a revaluation surplus of \$46.3 million. In addition, K-REIT Asia successfully reduced its leverage ratio from 30.0% at end-September 2005 to 27.4% at end-2006.

### **Returns to Unitholders**

K-REIT Asia has been well received by the market since its listing on the Singapore Stock Exchange ("SGX-ST") on 28 April 2006. Consistently strong quarterly performance and substantial capital appreciation in Unit price are testament to the excellent debut year K-REIT Asia has enjoyed in 2006. With the market closing price of \$2.50 per Unit on 29 December 2006, the unit price of K-REIT Asia had appreciated 140.4% from its first trading day opening price per Unit of \$1.04 on 28 April 2006. In addition to total distribution payout of 4.63 cents for the financial period, of which 1.16 cents per Unit had been paid on 28 August 2006 for the period

26 April to 30 June 2006 and another 3.47 cents per Unit paid on 28 February 2007 for the period 1 July to 31 December 2006, the total return to Unitholders since K-REIT Asia's listing was 144.8%.

K-REIT Asia's objective is to deliver stable and sustainable returns to Unitholders and its Unit price performance during the year affirms investors' confidence in K-REIT Asia's growth potential. With its quality commercial property portfolio, proactive asset management, potential acquisitions of earnings-accretive assets and a buoyant office market, K-REIT Asia is well-positioned to achieve further growth and better returns.

The existing property portfolio of K-REIT Asia comprises quality assets in good locations which achieved 100% committed occupancies as of 31 December 2006.

These prime office buildings located in the Central Business District provide quality offices for a wide and diverse tenant base. Situated in the heart of Raffles Place, Prudential Tower is home to many well-established financial and business services providers. At Bugis Junction Towers, Keppel Towers and GE Tower, leading multinationals, IT consultancies and government agencies have established offices and headquarters here.

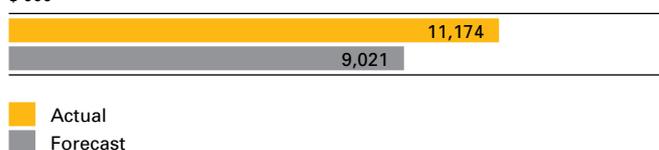
K-REIT Asia's properties are well-managed and their facilities meet tenant requirements. Nevertheless, the Manager of K-REIT Asia is continually exploring ways to add value to its properties not only to improve the total net property income but also to enhance the environment and competitiveness of the buildings, increase security levels, and raise safety standards and rental income.

## K-REIT Asia is well-positioned and focused on meeting its targets by leveraging its core competencies in the knowledge of and experience in the office market.

With its prime property portfolio and professional management to raise portfolio occupancy and rental rates, K-REIT Asia's net property income has achieved steady growth throughout the financial period ended 31 December 2006. Over the next few years, the market is expected to see strong underlying demand for prime office space and limited new supply, translating to rising rentals.

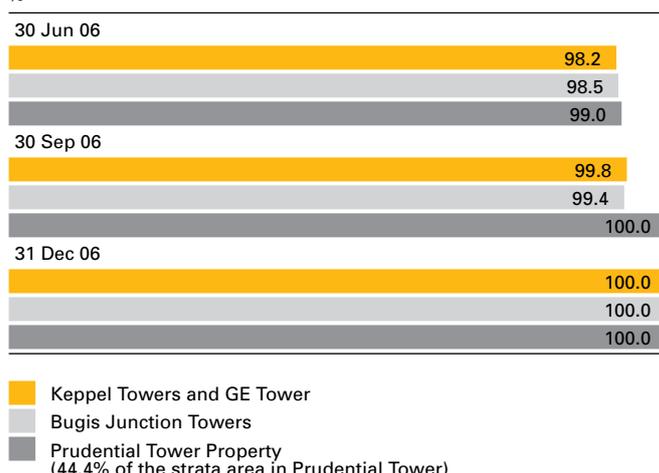
### Distributable income outperformed forecast by 23.9%

\$'000



### Committed occupancy hit 100%

%



### Growth and challenges in the REIT Industry

With 15 real estate investment trusts (REITs) listed on the SGX-ST as at end-2006, the REIT industry is fast growing. In 2006 alone, eight REITs were floated on the SGX-ST, reflecting the rapid expansion of the industry. As the Asian region continues to grow, more offshore assets are expected to list in Singapore by both local and foreign sponsors, particularly assets from China and India. Singapore is rapidly building its reputation as a REIT hub and the location of choice for cross-border and pan-Asian REITs.

As more offshore REITs and private property funds enter the local market, the REIT industry will experience greater dynamism and global exposure. However, competition for quality assets will intensify with more players in the market. Simultaneously, REIT managers are faced with the challenge of differentiating themselves from other REITs as investors are presented with an increasing number of investment options.

Despite these challenges, K-REIT Asia is well-positioned and focused on meeting its targets by leveraging its core competencies in the knowledge of and experience in the office market. While competition for assets increases, more landlords and property owners are electing to sell their properties. Furthermore, K-REIT Asia's sponsor has a significant portfolio of quality commercial properties in Singapore and overseas.

### **Commitment to growth**

K-REIT Asia is committed to drive growth and deliver sustainable returns to Unitholders. Tapping on the Manager's wealth of experience in real estate investment, asset management and research, the Manager is confident of successfully implementing its growth strategies to deliver returns to its Unitholders.

The Manager believes that K-REIT Asia has the qualities and capabilities that will enable it to improve returns to Unitholders through net asset value appreciation in the long term. In line with its objective of becoming a pan-Asian commercial real estate investment trust, K-REIT Asia has been actively exploring strategic acquisition opportunities in Singapore as well as other growth cities in Asia.

Barring unforeseen circumstances, the Manager is confident of achieving consistently good performance in the year ahead.

### **Acknowledgements**

The team at K-REIT Asia has worked hard to establish a strong foundation upon which to build success. Against the landscape of intense competition within and outside Singapore, the team delivered an outstanding performance for K-REIT Asia. I thank them all for their unstinting efforts.

I also wish to extend my appreciation to our Unitholders, business partners and tenants for their confidence and support. With the Board's guidance and the continued efforts of management and staff, K-REIT Asia remains committed to deliver improving returns to Unitholders.

Yours sincerely,



**Tsui Kai Chong**

Chairman

28 February 2007

# **K-REIT Asia has the foundation and the strategy to grow beyond.**

**K-REIT Asia's vision is to become a pan-Asian real estate investment trust, valued by its Unitholders for delivering steady and sustainable returns.**

**Growing into the future, K-REIT Asia endeavours to increase its Assets Under Management to \$2 billion in the next few years.**

**Underpinning K-REIT Asia's strength is its prime office portfolio and the wealth of experience of its dedicated management team.**

## K-REIT Asia will grow beyond potential



## beyond performance







## **beyond** potential

Competence, strategy and a sterling portfolio.

These are the strong foundations on which K-REIT Asia will continue to grow beyond and deliver sustainable returns.



## **Quality portfolio**

From the firm platform of its four prime office buildings valued at \$677 million (as at 31 December 2006), K-REIT Asia intends to springboard its growth.

K-REIT Asia's award-winning and excellently maintained properties are in choice locations and fully occupied with prestigious tenants.

### Strength of Sponsor

K-REIT Asia is sponsored by Keppel Land, one of Asia's premier property developers with a sterling portfolio of prime commercial properties in the business and financial district in Singapore and the region.

K-REIT Asia is able to leverage Keppel Land's industry expertise, experience and knowledge, its reputation as a developer, owner and manager of institutional investment-grade properties and its extensive Asian network.



### Growth strategy and management competence

K-REIT Asia's growth strategy emphasises value and focuses on quality pan-Asian commercial buildings while maintaining uncompromising criteria for acquisitions.

K-REIT Asia endeavours to maintain a prudent capital structure and has the flexibility to tap into the equity and/or debt markets to seize opportunities for growth.

Tapping on its wealth of experience in real estate investment, asset management, property management, marketing and research, the Manager is confident of delivering value to Unitholders.



## **beyond** performance

More than numbers, it's about performance.

K-REIT Asia believes that key to steady growth over the long-term is its ability to deliver value to all stakeholders.

BUGIS



JUNCTION TOWER

**K-REIT**asia



## Financial strength

K-REIT Asia consistently delivered excellent financial performance since its commencement of trading on the SGX-ST in April 2006.

K-REIT Asia's DPU growth outperformed the forecast during FY2006 and achieved total return of 144.8%<sup>1</sup> from the commencement of trading on 28 April 2006 to the last trading day on 29 December 2006.

Underpinned by strong demand and limited supply of quality commercial space, K-REIT Asia achieved 100% committed occupancy and increased net property income.

Its strong financial performance not only proves K-REIT Asia is able to grow through asset management and maximising net property income but also enables it to tap other opportunities for growth.

<sup>1</sup> Total return of 216.0% from date of listing to 28 February 2007

### **Proactive asset and investment management**

With the aim of maximising returns for Unitholders and delivering value to stakeholders, K-REIT Asia is committed to proactive asset and investment management.

By understanding and meeting its tenant's needs, the Manager has established long-standing and valued tenant relationships, as evidenced by its high retention rates. By maintaining and enhancing the quality environment, the Manager delivers value to its tenants. The Manager continues to engage its tenants by providing networking opportunities to strengthen meaningful landlord-tenant relationships.

The Manager's various green initiatives in energy and water efficiency fulfills its role as a responsible corporate citizen. K-REIT Asia is committed to business continuity planning and emergency preparedness to protect its valued assets and enhance the safety of its tenants.

The Manager also makes concerted efforts in communicating to all stakeholders its performance and outlook as it believes good corporate governance and transparency is fundamental to sustainable growth.



# K-REIT Asia at a glance

In its debut year, K-REIT Asia delivered a creditable performance for Unitholders.

## 23.9%

### Distributable income

Distributable income to Unitholders outperformed forecast by 23.9% to \$11.2 million.

## 100%

### Occupancy rate

Portfolio committed occupancy hit 100% as at 31 December 2006.

## 11.3%

### Net property income

Net property income reached \$16.8m, exceeding forecast by 11.3%.

## 27.4%

### Gearing

Gearing was lowered to 27.4%.

## 144.8%

### Total return

Total return of 144.8% from listing date up to 29 December 2006.

## 24.5%

### Distribution per unit

Distribution per unit of 4.63 cents exceeded forecast by 24.5%.

# Strategic directions

**Tapping on the Manager's wealth of experience in real estate investment, asset management, marketing and research, K-REIT Asia is confident of implementing its growth strategies to deliver returns to its Unitholders.**

Strategic directions	Objectives	Strategy in action
Maximise performance →	<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 excellent tenancy mix</li> <li>• Enhancing relationships to maintain high tenancy retention rates</li> <li>• Implementing prudent lease-term strategies to address forecast market conditions</li> <li>• Increasing returns on non-rental income</li> </ul>
Enhance assets →	<ul style="list-style-type: none"> <li>• Improve existing property value →</li> </ul>	<ul style="list-style-type: none"> <li>• Strengthening professional property management capabilities</li> <li>• Emphasising safety and security measures</li> <li>• Leveraging technology to improve operations</li> <li>• Progressing potential increases to net lettable area</li> <li>• Addressing quality of interior fittings and finishings</li> <li>• Promoting quality brand awareness</li> <li>• Implementing green initiatives for social contribution and building performance improvement</li> </ul>
Acquire quality assets →	<ul style="list-style-type: none"> <li>• Increase Assets Under Management (AUM) →</li> </ul>	<ul style="list-style-type: none"> <li>• Increasing research in target markets</li> <li>• Pursuing business development actively</li> <li>• Leveraging competencies and experience in regional office market</li> <li>• Analysing feasibility of specific single assets as well as multiple asset acquisitions</li> <li>• Reviewing other real estate-related asset acquisitions</li> </ul>
Achieve capital efficiency →	<ul style="list-style-type: none"> <li>• Optimise capital and debt structure →</li> </ul>	<ul style="list-style-type: none"> <li>• Pursuing balance between debt and equity</li> <li>• Limiting interest cost exposure by capping long-term rates</li> <li>• Securing credit rating</li> <li>• Building on existing Medium-Term Note programme totalling \$3 billion</li> <li>• Utilising competitive revolving credit facility to meet short-term working capital needs</li> </ul>
Build efficiencies and nurture talent →	<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 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>

# Portfolio at a glance

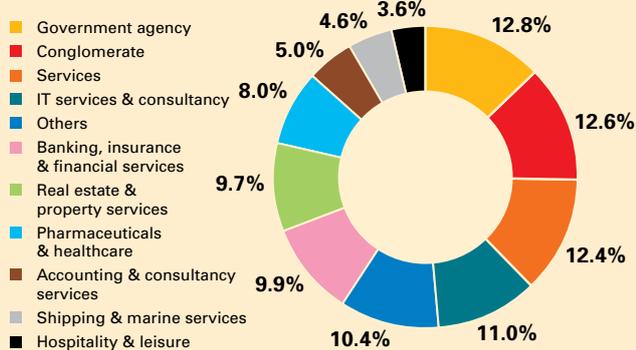
## The initial portfolio value of \$630.7 million was revalued at \$677 million as at end-2006.



### K-REIT Asia property portfolio key statistics as at 31 December 2006

Net lettable area	73,108 sm (786,927 sf)
Committed occupancy	100%
Purchase price (on acquisition)	\$630.7 million
Valuation (as at 31 Dec 2006)	\$677 million
Number of tenants	95
Number of car park lots <sup>1</sup>	288

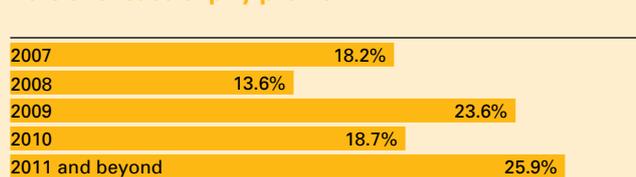
### Portfolio tenant business sector analysis <sup>2</sup>



### Portfolio top 10 tenants

Ranking	Tenant	% of Gross Rent <sup>2</sup>
1	International Enterprise Singapore	12.8%
2	GE Pacific Pte Ltd	8.6%
3	Keppel Land International Limited	6.2%
4	J.V. Fitness Pte Ltd	6.2%
5	Swan Trustees Limited	4.3%
6	The McGraw Hill Companies, Inc	4.1%
7	The Executive Centre	3.6%
8	InterContinental Hotels Group	3.3%
9	Prudential Assurance Company Singapore	3.2%
10	Convergys Singapore Pte Ltd	3.1%
Total		55.4%

### Portfolio lease expiry profile <sup>3</sup>

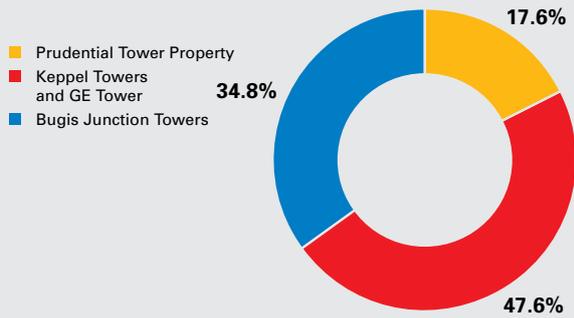


<sup>1</sup> At Keppel Towers and GE Tower. Excludes car park lots owned and managed by the respective management corporations.

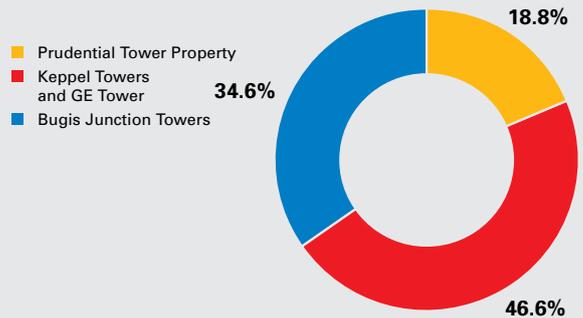
<sup>2</sup> Based on Gross Rent for the month of December 2006.

<sup>3</sup> Based on expiring leases as a percentage of Gross Rent for the month of December 2006.

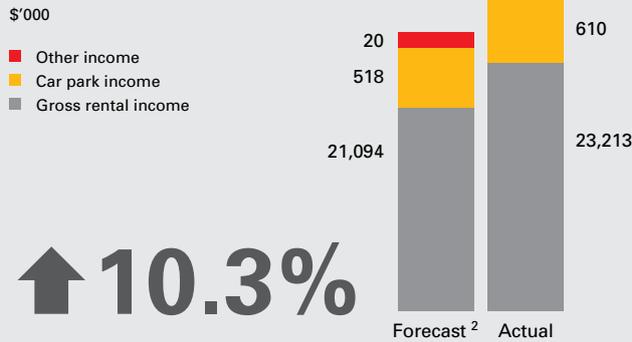
### Portfolio analysis by property income <sup>1</sup>



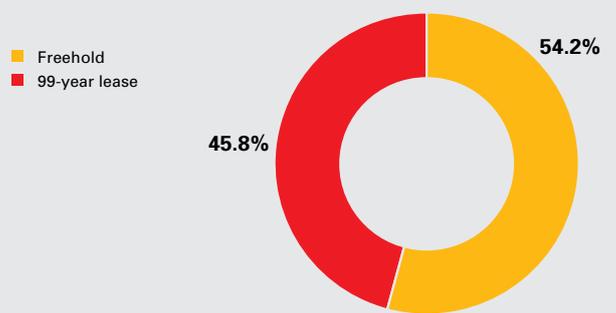
### Portfolio analysis by net property income <sup>1</sup>



### Portfolio breakdown of income <sup>1</sup>



### Portfolio analysis by tenure <sup>3</sup>



<sup>1</sup> For the period from 26 April 2006 to 31 December 2006.

<sup>2</sup> Based on the forecast figures for 2006 disclosed in the Introductory Document and pro-rated for the period from 26 April 2006 to 31 December 2006.

<sup>3</sup> Based on valuations of K-REIT Asia's properties as at 31 December 2006.

# Board of directors



**Professor Tsui Kai Chong**  
Chairman and  
Independent Non-Executive Director

Professor Tsui is 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; an Examination Evaluator, Chartered Financial Analyst Examination, CFA Institute since 1994 and serves on the editorial board of the *Financial Analysts Journal* since 2003. 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**  
Deputy Chairman and  
Non-Executive Director

Mr Wong is the Deputy Chairman and non-executive Director of the Manager since 28 November 2005. He is concurrently the Managing Director of Keppel Land Limited since January 2000. He is Vice-Chairman and Director of Evergro Properties Limited, Chairman and Director of Keppel Philippines Properties, Inc., and Chairman and Director of Keppel Thai Properties Public Co Limited. He is also a Director of Prudential Assurance Company Singapore (Private) Limited, and Singapore Hotel Association.

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.



**Mr Tan Swee Yiow**  
Chief Executive Officer and  
Director

Mr Tan is the Chief Executive Officer and a Director of the Manager since 24 November 2005. He joined Keppel Land Group in 1990 and is the Director overseeing the Group's commercial investment and development operations in Singapore since 1998.

Prior to joining Keppel Land Limited, Mr Tan was with a banking group, advising 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. He is currently a member of the Building and Construction Authority's Construction Excellence Awards Committee and a member of the Management Committee of the Real Estate Developers' Association of Singapore.



**Mrs Lee Ai Ming**  
Independent  
Non-Executive Director

Mrs Lee is 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. 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 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; Vice-Chairperson, Asian Patent Attorney's Association – Singapore Group; Chairperson of the ASEAN subcommittee and member of the International Panel of Neutrals of the International Trade Marks Association; and Chairperson of the Asian Patent Attorney's Association – Singapore chapter.

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**

Independent  
Non-Executive Director

Mr Lim is an independent non-executive Director of the Manager since 3 February 2005. He graduated with a Bachelor Degree in Economics from the University of Singapore and started his banking career with the Singapore-based United Overseas Bank Group (UOB Group). The Management Services Department 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 group. He was promoted to General Manager of the Financial Services Division.

Mr Lim resigned from UOB Group to join Singapore stockbroker JM Sassoon & Co. Pte Ltd (Sassoons), as Director and shareholder. He retired in 1991 to pursue his private investments.

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.



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

Independent  
Non-Executive Director

Dr Chin is an independent non-executive Director of the Manager since 3 February 2005. She is currently also an independent Director, chairman of the audit committee, and member of the remuneration and nominating committees of Singapore Petroleum Company Ltd. She also serves as Executive Director 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 licenced 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 GIC. She was responsible for recommending active global strategy to the GIC's Assets Allocation Committee and was part of GIC's risk management project group. 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 directorships and past directorships in the last three years

## 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; Keppel Philippines Properties, Inc; Keppel Thai Properties Public Co Ltd; Evergro Properties Ltd; Prudential Assurance Company Singapore (Pte) Limited; BioMEMS International Pte Ltd; Singapore Hotel Association; Singapore International Chamber of Commerce

### Past Directorships

HDB Corporation Pte Ltd and various subsidiaries and associated companies of Keppel Land Limited

## Mr Tan Swee Yiow

### 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

Addision 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 Special Finance Hedge Fund; Global Credit Hedge Fund; Income Partners (Singapore) Pte Ltd; Income Partners Greater China High Yield Fund; Kapital Asia Company Limited; New China Land Group Limited

### Past Directorships

Interra Resources Limited; Sino Eastern Development & Investment Corporation

## Dr Chin Wei-Li, Audrey Marie

### Present Directorships

Singapore Petroleum Company Ltd; Vietnam Investing Associates – Financials Singapore Private Limited

### Past Directorships

Save the Children Singapore Limited; Rossignol Private Limited

# The Manager

(Left to right:)

**Serena Toh**  
Assistant General Manager  
Investor Relations and  
Research

**Tan Swee Yiow**  
Chief Executive Officer and  
Director

**Melissa Teh**  
Financial Controller

**Daniel Cerf**  
Deputy Chief Executive Officer

**John Chng**  
Assistant General Manager  
Investment

*Not in picture:*  
*Joseph Low*  
*Assistant General Manager*  
*Investment*



(Left to right:)

**Henrietta Yap**  
Senior Executive, Investor  
Relations and Research

**Tan Pua Chi**  
Senior Manager, Finance

**Chiah Soo Ling**  
Manager, Asset Management

**Anthea Lee**  
Manager, Investment

**Sophia Yang**  
Executive, Asset Management



# The Property Manager

(Left to right:)

**Dennis Tay**  
General Manager, Marketing

**Christopher Ho**  
Assistant General Manager  
Property Management

**Lim Tow Fok**  
General Manager, Property  
Management

**Sally Tan**  
Assistant General Manager  
Marketing



(Left to right:)

**Yong Siok Chin**  
Senior Manager  
Property Management

**Leong Geok Mui**  
Manager, Marketing

**William Wong**  
Manager, Property Management

**Karen Tan**  
Manager, Marketing

**Alan Ng**  
Senior Manager  
Property Management

**Tricia Tan**  
Senior Executive, Marketing

**Wong Joo Siong**  
Manager, Property Management



## The Manager

### **Tan Swee Yiow**

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

Mr Tan is responsible for working with the Board to determine the strategy for K-REIT Asia. Mr Tan also works with the other members of the management team to ensure that K-REIT Asia operates in accordance with the stated investment strategy.

Mr Tan joined Keppel Land Group in 1990 and is the Director overseeing the Group's commercial investment and development operations in Singapore since 1998.

Prior to joining Keppel Land Limited, Mr Tan was with a banking group, advising 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. He is currently a member of the Building Construction Authority's Construction Excellence Awards Committee and a member of the Management Committee of the Real Estate Developers' Association of Singapore.

### **Daniel Cerf**

#### **Deputy Chief Executive Officer**

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

Prior to this appointment, Mr Cerf was General Manager of Special Duties, Keppel Land. He has also held key positions with First Pacific Land in Hong Kong and Singapore, in addition to Supreme Value Properties in Malaysia and Land & Capital Co. Limited in Thailand. Mr Cerf has more than 20 years in real estate in Asia, working on investment and development ventures in Hong Kong, Philippines, Singapore, Indonesia, Thailand, Vietnam and Malaysia. Mr Cerf is a licensed architect in the United States and holds a Bachelor of Architecture (Dean's List) from the University of Oklahoma, USA.

### **Melissa Teh**

#### **Financial Controller**

Mrs Teh oversees the accounting, taxation, treasury, compliance and reporting functions of K-REIT Asia. Mrs Teh has over 20 years of experience in the finance, accounting, tax and treasury in the property industry. Mrs Teh joined Keppel Land Group in 1996, where she is in charge of the full spectrum of Financial and Accounting function of the companies owned by the Group. Her key responsibilities include the active structuring, sourcing and management of the project financing and treasury operations for the project companies in Singapore and overseas. She is also involved in the finance-related aspects of the Group's acquisitions and divestment of properties.

Before joining Keppel Land, Mrs Teh was the Senior Finance Manager of Pidemco Land Limited. Prior to Pidemco Land Limited, Mrs Teh worked as an Accountant in Urban Redevelopment Authority from 1981 to 1989.

Mrs Teh holds a Bachelor of Commerce Degree in Accountancy from Nanyang University. She is a Certified Public Accountant with the Institute of Certified Public Accountants of Singapore and a fellow of CPA Australia.

### **Serena Toh**

#### **Assistant General Manager, Investor Relations and Research**

Ms Toh is responsible for facilitating communications and liaison with Unitholders with the aim of upholding transparency standards. This includes analyst meetings, quarterly performance announcements, production of annual reports, and regular statutory reporting. Ms Toh is also responsible for analysing the commercial market trends and tenant profiles.

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. She is responsible for communicating with institutional shareholders, analysts and fund managers, and managing the relationship with the investor community.

Ms Toh joined the real estate sector from a journalism background. She worked at The Straits Times from 1986 to 1992. She held the position of correspondent before she joined Dow Jones Telerate as Deputy Editor of Equities/News.

Ms Toh obtained a Master of Science in Development Studies at the London School of Economics in 1992. She also holds a Master of Business Administration from City University in London (now known as Cass Business School), and a Bachelor of Arts & Social Science degree from National University of Singapore.

### **John Chng**

#### **Assistant General Manager, Investment**

Mr Chng's role is to identify and evaluate potential acquisitions with a view to enhancing the portfolio. He will also identify possible divestment properties that are no longer strategic, fail to enhance the portfolio or fail to be yield-accretive. He will also recommend and analyse potential asset enhancement initiatives.

Mr Chng was previously a Vice-President at Pacific Star Investment and Development Pte Ltd where he was involved in the evaluation, structuring and execution of real-estate acquisitions. He has held corporate planning, and business development positions with CapitaLand as well as Singapore Power.

Mr Chng holds an MBA from Imperial College, London and received a Bachelor of Science in Civil Engineering from The George Washington University, Washington DC, USA.

### **Joseph Low (Not in picture)**

#### **Assistant General Manager, Investment**

Mr Low works at identifying and evaluating potential acquisitions with the objective of enhancing the portfolio. He is also involved in the structuring of potential acquisition transactions.

Prior to joining the Manager, he was the Head of Corporate Development in Keppel Land Limited where he led a team in strategic planning, risk management and special investments. In 2000, he was assigned to assist the Managing Director where he was responsible for various corporate activities including strategic planning, mergers and acquisitions, and corporate restructuring. Mr Low joined the Regional Investment division of Keppel Land in 1995 where he worked on the company's real estate investment & development in Indonesia and Thailand.

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

**Tan Pua Chi****Senior Manager, Finance**

Ms Tan assists in the finance function of the Manager including financial reporting, taxation, compliance and treasury. She also works closely with the asset management and investment team to meet the investment objectives of K-REIT Asia.

Ms Tan has over 10 years of experience in the finance field of the real estate industry. Prior to joining the Manager, Ms Tan was the Finance Manager of Keppel Land Group where she was responsible for the financial, accounting and tax related function of companies within the Group. Before Keppel Land, Ms Tan was an auditor with Ernst & Young.

Ms Tan graduated from Nanyang Technological University with a Bachelor of Accountancy (Honours) degree. She is a member of the Institute of Certified Public Accountants of Singapore.

**Anthea Lee****Manager, Investment**

Ms Lee's primary role is to assist in the areas of identifying and evaluating potential acquisitions, recommendation and analysis of asset enhancement initiatives and reviewing possible divestments. Ms Lee was previously a business development manager at Ascendas Land (S) Pte Ltd where she was responsible for the sourcing, evaluation, structuring and execution of Build-and-Lease projects, property acquisitions and land tenders; the conceptualising and packaging of several Request For Proposals; as well as divestments into A-REIT.

Prior to her role in Ascendas, Ms Lee was a deputy manager at JTC where she was responsible for asset management, business development and project management of several estates in the South and East zones. Ms Lee started off her career in JTC handling islandwide refurbishment and estate enhancement projects for all of JTC properties.

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

**Chiah Soo Ling****Manager, Asset Management**

Ms Chiah's role is to implement the business plans for the property portfolio with the aim of maximising rental income. Ms Chiah works closely with the Property Manager regarding K-REIT Asia's strategies so as to maximise the income potential of the properties and minimise their expense base without compromising the marketability of the commercial space. She also focuses on the operations and implementation of the short- to medium-term objectives and supervises the Property Manager in the implementation of the strategy.

Ms Chiah was previously a centre manager with DTZ Debenham Tie Leung Property Management Services Pte Ltd where she was tasked with the primary duty of managing the retail complex operations. Her scope of work encompassed property management and maintenance, lease management and negotiations, advertising and promotions, as well as planning and budgetary control. Prior to joining the centre management division, Ms Chiah was a Manager in the Occupier Services as well as the Valuation Services in DTZ Debenham Tie Leung (SEA) Pte Ltd.

Ms Chiah holds a Bachelor of Science (Estate Management) Honours degree from the National University of Singapore.

## The Property Manager

**Lim Tow Fok****General Manager, Property Management**

Having more than 20 years experience in Property Management and holding a Master of Business Administration degree, Mr Lim is responsible for setting strategic directions, establishing policy standards, as well as ensuring the smooth and efficient operation of all investment properties managed by this division. An active participant in concept planning, design development as well as refurbishment of existing projects, Mr Lim also oversees tenants' retention activities, service quality standards and administration of all leases in the various investment properties, which includes rental collections, insurances, property tax matters, etc. Prior to joining Keppel Land, Mr Lim was the Associate Director of Asset Management Department in CB Richard Ellis.

**Dennis Tay Choon Kuan****General Manager, Marketing**

Mr Tay oversees the marketing function of The Manager, ensuring the buildings are leased at optimal market rents and occupancy to meet the commercial and financial targets for the portfolio. He has over 17 years of marketing real-estate experience for residential and commercial properties in both Singapore and China. Prior to joining Keppel Land, he was Executive Director, Investment Properties in CB Richard Ellis Ltd, Singapore and Managing Director, CB Richard Ellis Ltd, Beijing, where he oversaw the operations of the Beijing office. Mr Tay holds a Bachelor of Science in Estate Management from the National University of Singapore and is a licensed valuer.

**Christopher Ho Kam Pouy****Assistant General Manager, Property Management**

Mr Ho is responsible for overseeing the lease management and property management activities of the Portfolio. He joined Keppel Land Group in 1995 and was promoted to Assistant General Manager of Property Management in 2001. He was involved in the concept planning and design development of new commercial developments and also responsible for overseeing the lease management and property management activities of completed commercial properties under the Keppel Land Group. Mr Ho 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 is a Member of the Singapore Institute of Surveyors and Valuers.

**Sally Tan Meow Ling****Assistant General Manager, Marketing**

Ms Tan has over 15 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 including joint-venture projects like One Raffles Quay, formulating marketing initiatives and customer relationship management. She is involved in the planning and design development of new projects including two prime projects, Capital Square and Prudential Tower, which were developed by Keppel Land in 1998. Prior to this, she was with JTC Corporation and was involved in the development and marketing of Singapore's leading biomedical complex, the Biopolis @ one-north. Ms Tan holds a Bachelor of Science (Estate Management) Honours degree from the National University of Singapore.

Special feature

# Growing in tandem with the strong office sector





The Singapore economy is transforming to meet the new challenges ahead. To propel the nation's economy to the next level of growth, the Government has introduced several measures to enhance its competitiveness. This transformation is expected to take place over the next few years and one key development is the creation of the new downtown core as an international business and financial precinct.

Office buildings in the immediate vicinity of the new downtown will benefit from revitalisation. Already, capital values and rentals of the office property sector are appreciating significantly and heading toward benchmark levels. At the same time, new supply of prime office space is limited.

Across all sectors of the property market, there is an increasing number of real estate investment trust (REIT) listings on the back of a robust property market, favourable government legislation and positive economic outlook.

These strong fundamentals bode well for K-REIT Asia, which is poised to identify and capture any growth opportunity that arises.

### **Strong demand and shortage of supply drive values**

Compared to the previous years, GDP growth and employment figures for 2006 made marked improvements. These are evidence of regenerated consumer confidence and positive business sentiment. In tandem with robust economic growth, rising consumer confidence and positive business sentiments in the region, property markets are also rallying as the recovery of Asian markets gains momentum.

According to the Ministry of Trade and Industry, the economy grew 7.9% in 2006, as compared to 6.6% in the previous year. The financial services sector grew by 9.2% in 2006 as compared to 7.6% in the previous year, with the fund management and stock trading segments registering strong growth throughout the year. The manufacturing sector grew by 12% in 2006 as compared to 9.5% in 2005. The construction industry also recovered to achieve 2.7% growth in 2006, up from 0.7% in the previous year. Further growth in the building and construction industries are expected from 2007 to 2009 due to more homes being built, fueled by an active residential property market and the construction of the Integrated Resorts at Marina Bay and Sentosa.

Alongside strong GDP growth, employment creation hit an all-time high of 173,300 new jobs in 2006. Correspondingly, the preliminary unemployment rate declined to a low of 2.7% in 2006 from 3.1% in 2005. In the light of sound economic fundamentals and positive regional market trends, the Singapore government expects the economy to continue growing at a healthy rate of 4.5% – 6.5% in 2007.

According to the Urban Redevelopment Authority (URA), completed office stock as at end-2006 stood at 70.3 million sf, with 63.1 million sf being occupied. Occupancy rates reached 89.6% in the Central Region whilst Raffles Place in particular, faced a tighter situation with an occupancy rate of 90.8%.

With renewed confidence in Singapore and the Asian region, regional and multinational corporations are increasingly drawn to base their operations here. The key driver for this strong demand of office space is financial institutions capitalising on Singapore's strategic geographic location for Asia's fast growing wealth management industry. Singapore is perceived as the strategic link between China and India, the two powerhouses of the global economy.

### Singapore office supply in the pipeline

million sf

2007	0.40
2008	0.48
2009	1.00
2010	1.90

Source: DTZ, CBRE and K-REIT Asia estimates

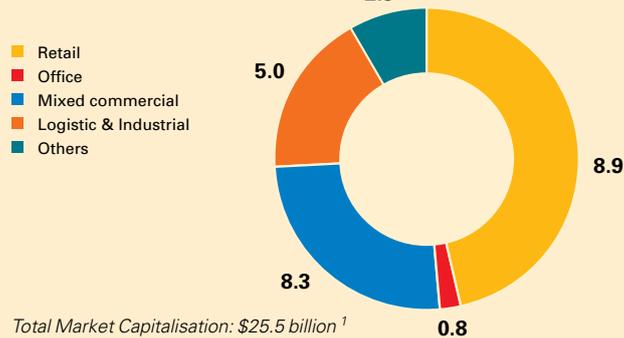
Businesses continue to recognise the competitive advantages of being located in Asia, allowing them to gain ground experience and reaching their customers better. Singapore is favoured because of its choice location, economic and political stability facilitated by a pro-business government, good infrastructure, skilled workforce and quality lifestyle.

With the influx of new international business and financial players and as existing businesses seek to expand their operations and relocate to more sought-after prime offices in the Central Business District (CBD), demand for office space has become increasingly competitive. CB Richard Ellis (CBRE) estimates that Core CBD and Frindge CBD occupancy rates have climbed steadily to 96.4% and 93.1% respectively as at end-2006, up from 91.4% and 89.4% respectively in the previous year.

The fast take-up of One Raffles Quay, which is jointly developed by Keppel Land, Cheung Kong (Holdings) and Hongkong Land, illustrates the strong demand vis-à-vis a tight market situation. The premium office building with 1.3 million sf was fully pre-committed even before its completion in October 2006.

### Market capitalisation of REITs in Singapore

\$ billion



Total Market Capitalisation: \$25.5 billion<sup>1</sup>

Source: Bloomberg

<sup>1</sup> Information as at 28 February 2007.

There is no substantial new office supply in the pipeline till 2010 when the first phase of the Marina Bay Financial Centre comes on stream. To exacerbate the situation, several buildings such as Overseas Union House and Straits Trading Building in the CBD will be undergoing redevelopment, further reducing existing stock by over 1 million sf. Between 2007 and 2009, new supply of office space is about 0.6 million sf per annum, which is significantly lower than annual historical average take-up.

Rentals are experiencing a significant rise, particularly in the CBD, due to continued strong office demand and limited new supply. According to CBRE, prime office rentals increased 50.2% from \$5.20 psf as at end-2005 to \$7.81 psf as at end-2006. Similarly, prime capital values rose 50% between 2005 and 2006, from \$1,000 psf to \$1,500 psf respectively.

K-REIT Asia's portfolio comprises a diversified and stable tenant mix, with excellent tenant retention rates resulting from good tenant-landlord relationships and continuous asset enhancement efforts. The rising rental market will provide higher revenue for K-REIT Asia and set the stage for continued strong portfolio performance.

### Government encourages development of a flourishing REIT industry

The upturn of the property market generated a healthy appetite for the establishment of and investment in REITs. Given the current market conditions, commercial/office REITs are viewed favourably for their steady stream of income to Unitholders and potential capital appreciation.

As at end of 2006, there were 15 REITs listed on the SGX-ST, managing combinations of retail, office, hospitality, logistics and industrial properties. Since the listing of the first REIT on the SGX-ST in 2002, the total market capitalisation of listed REITs has seen exponential growth from \$1.2 billion in December 2002 to about \$25.5 billion in February 2007.

To further promote the growth of the REIT market, the government relaxed the rules and regulations governing the REIT sector. In 2005, the government declared exemption of stamp duty on acquisition transactions for REITs up to 17 February 2010 to encourage REIT managers to grow their portfolios through acquisitions.

In addition, REITs are now allowed to develop properties if they are held in the portfolio upon completion, with the proviso that not more than 10% of the REIT's assets are in property development activities or investments in uncompleted third-party property developments.

The REITs' gearing limit of 35% may also be raised to 60% if a credit rating from a major rating agency is obtained. As mature REIT markets like Japan, Australia and the United States do not impose any gearing limits on REITs, an increased gearing limit achieves the balance between flexibility to be more competitive at the global level and managing the risk of debt obligations during a property downturn. These changes reflect the Government's strong support to develop the REIT industry in Singapore.

Compared to the other mature REIT markets, the Singapore REIT market is becoming sophisticated at a faster rate. The Singapore Government is careful to avoid the negative experiences of mature REIT markets and encourages moderation between risk and return strategies. The regulations in place provide a strong and stable foundation for the market to grow.

Despite increasing competition from new REIT markets such as Hong Kong and Malaysia, the SGX-ST remains a highly favourable platform for REITs in Asia to list. The Singapore market offers an established REIT infrastructure, widespread investor acceptance, strong interest from institutional and retail investors, high degree of transparency and good corporate governance, availability of asset and fund management expertise, as well as in-depth coverage by research analysts. These factors help cultivate a conducive, efficient and safe environment for REITs to list and grow.

More REITs are expected to list on the SGX-ST in 2007. JTC Corporation has indicated interest to divest its substantial industrial property portfolio via REIT and direct sale. Its portfolio comprises mainly flatted factories, ramp-up and stack-up factories, multi-tenanted business park buildings and a warehouse building. Other possible upcoming REITs include a healthcare facility REIT by Parkway Holdings, a commercial and industrial mixed REIT by Fraser & Neave, as well as two other mixed REITs by Mapletree Investments.

Singapore is rapidly gaining a reputation as a REIT hub and the location of choice for cross-border and pan-Asian REITs. As the Asian region continues to grow, more offshore assets are likely to be listed in Singapore by local as well as foreign sponsors, particularly assets from China and India.

According to Jones Lang LaSalle, Australian REITs are showing increased interest in Asia as a source of growth as over 60% of investment-grade properties in the mature Australian REIT market are already securitised. In comparison, Asia has only about 10% of its investment-grade properties acquired by REITs or private property funds.

With the expected listing of more REITs over the next few years, Singapore is poised to emerge as the region's leading REIT market.

The development of the REIT industry serves as a springboard for K-REIT Asia, whilst strong demand and tight supply in the office market ensure that office rents remain buoyant in the years ahead.

Despite its recent listing, K-REIT Asia has performed well with returns exceeding forecasts and its share price demonstrating investor confidence and demand.

Between 28 April 2006 and 31 December 2006, K-REIT Asia achieved a total return of 144.8%. Broader market indices such as the Straits Times Index (STI) and the Singapore Property Equities Index (SES PROP), achieved total returns of 17.3% and 35.2% respectively for the same period.

#### **Marina Bay to spearhead next phase of growth**

The strong property market sentiments stem largely from the visionary plans for Marina Bay. The highly anticipated Marina Bay Sands Integrated Resort promises spillover benefits to the construction, business services, tourism, and conventions and exhibitions industries. Offering world-class entertainment facilities and distinctive features and attractions, Marina Bay Sands will inject vibrancy and life into the new downtown.

Key to the metamorphosis of Singapore into an international business and financial hub, Marina Bay will boast landmark office buildings such as One Raffles Quay and the Marina Bay Financial Centre, both developed by the Keppel Land, Cheung Kong (Holdings) and Hongkong Land consortium.

The two properties showcase state-of-the-art office premises housed in ingenious architecture. Given their superior quality and location, the developments command premium rents and appeal to an international community of tenants.

K-REIT Asia will benefit from the success of Marina Bay. Featuring a combination of six-star residences and hotels, top-notch office buildings, exceptional business and conventions facilities as well as vast spaces of greenery for leisure, the new downtown core will be the choice locale of multinational companies and fast-growing businesses. With its portfolio of prime office buildings in the CBD, K-REIT Asia will benefit from escalating rents as a result of the anticipated increase in demand.

Highlighting the upcoming developments, the URA unveiled an elaborate lighting plan for the city centre, covering the Orchard Road, Singapore River, Bras Basah, Bugis, CBD and Marina Bay areas. With retail outlets and an array of eateries, the CBD and Marina Bay would be bustling with life both day and night. This added dimension to the city centre will fulfill the Government's objective of creating a work-live-play environment in the downtown core.

#### **Growing beyond**

Setting its sights further, K-REIT Asia is aiming for a target size of \$2 billion assets under management within the next few years. It is well-positioned for further growth through potential asset acquisitions.

With favourable market conditions and excellent growth potential, K-REIT Asia is ready to ride on the uptrend and reach new heights.

## Operations review

Property income of \$23.9 million and net property income of \$16.8 million exceeded forecast by 10.3% and 11.3% respectively.



## Portfolio committed occupancy

30 Jun 06	98.4%	92.9%
30 Sep 06	99.7%	95.5%
31 Dec 06	100.0%	96.4%

■ K-REIT Asia property portfolio  
■ Core CBD Occupancy

Source: CBRE



In its debut year, K-REIT Asia delivered a good performance through a distinguished portfolio of prime assets coupled with the professional asset management and investment acumen of the Manager.

For the financial period ended 31 December 2006, K-REIT Asia achieved a distributable income of \$11.2 million, exceeding forecast by 23.9%. Property income of \$23.9 million and net property income of \$16.8 million exceeded forecast by 10.3% and 11.3% respectively. K-REIT Asia's annualised distribution per unit outperformed forecast by 24.5% to reach 6.76 cents.

Benefitting the Unitholders, the Manager adopted a high distribution payout ratio whereby 100% of its taxable income was distributed for the period commencing 26 April 2006 to 31 December 2006.

For FY2007, the Manager remains committed to adhering to a high distribution payout ratio by distributing at least 95% of its taxable income to Unitholders. Thereafter, at least 90% of its taxable income will be distributed.

For the period from 26 April 2006 to 31 December 2006, K-REIT Asia paid a total of 4.63 cents per Unit. K-REIT Asia paid 1.16 cents per Unit on 28 August 2006 for the period from 26 April 2006 to 30 June 2006 and 3.47 cents per Unit on 28 February 2007 for the period from 1 July 2006 to 31 December 2006.

K-REIT Asia's office portfolio was revalued at \$677 million as at 31 December 2006. This translates to an improvement in net asset value from \$1.82 per Unit at end-September 2005 to \$2.04 per Unit at end-2006. The leverage ratio was also lowered from 30% at end-September 2005 to 27.4% at end-2006.

Enabling this strong performance is the conscientious efforts of the Manager in implementing K-REIT Asia's asset management, investment and capital management strategies.



**K-REIT Asia is the first commercial real estate investment trust to have achieved 100% portfolio occupancy.**



#### **Proactive asset and lease management**

Through proactive asset and lease management, the Manager of K-REIT Asia achieved 99.5% tenant retention for 2006 whilst raising gross rental rates steadily, reflecting good tenant relationships and strong underlying demand for prime office space.

Based on the portfolio's gross rental revenue in December 2006, more than 55% of the portfolio is due for renewal between 2007 and 2009. The Manager is confident that rental rates will be revised positively beyond the portfolio average gross rent of \$3.80 psf as at end-2006.

As at 31 December 2006, K-REIT Asia's portfolio achieved full occupancy at all its four quality office buildings, above Core CBD occupancy of 96.4% and Fringe CBD of 93.1% (Source: CBRE).

Notably, K-REIT Asia is the first commercial real estate investment trust to have achieved 100% portfolio occupancy (Source: CLSA Singapore). The Manager will continue to take a proactive approach towards marketing activities and build strong relationships with tenants.

K-REIT Asia believes in constantly evaluating tenant requirements to identify and explore asset enhancement initiatives that will add value to the respective assets and the portfolio as a whole.

The top three industry sectors contributing to K-REIT Asia's rental income in 2006 can be broken down into the classifications of government agencies, conglomerates and financial and business services. They represent a fairly equal take-up of more than 12% each, totalling a resilient 40% share of the income base.

The balance of the portfolio's tenant business profile is diversified across multiple business sectors, including IT services and consultancy, hospitality, and pharmaceuticals and healthcare. This broad tenant base allows for synergy of growth backed by Singapore's buoyant economy and mitigates the risk of over-dependence on a particular industry.



At K-REIT Asia, the Manager believes in providing sustainable property solutions to ensure long-term growth for both the Trust as well as its tenants. K-REIT Asia's purpose goes beyond the simple provision of space for business operations. The Manager strives to understand each and every tenant's needs so as to better meet individual requirements. The ability to appreciate the nature of tenants' businesses and understand their requirements allows the Manager to identify areas that can be improved and respond quickly by delivering sound business solutions that work in congruence for both the tenant and the landlord.

Besides a proactive and experienced management team, K-REIT Asia is also supported by a strong investor relations and research arm, which ensures that the team is well-informed of current market conditions and competition. This enables the Manager to identify trends early so as to stay ahead of the market.

Given its superior assets, a diverse and quality tenant base, as well as a professional and experienced management team, K-REIT Asia is well-positioned to achieve sustained growth in the years ahead.

**K-REIT Asia has been actively exploring strategic acquisition opportunities in Singapore and around the region.**



### Investment strategy

The principal investment strategy of K-REIT Asia is to achieve stable dividend income and long-term growth in net asset value for Unitholders by investing in a portfolio of quality real estate and real estate-related assets which are income producing and used predominantly for commercial purposes in Singapore and Asia.

K-REIT Asia has the characteristics and the ability to make acquisitions that will improve returns to Unitholders and provide net asset value per unit appreciation in the long term. K-REIT Asia's prudent capital management and present gearing ratio provide further latitude for aggregate leverage when exploring acquisition opportunities.

In line with its objective of becoming a pan-Asian commercial REIT, K-REIT Asia has been actively exploring strategic acquisition opportunities in Singapore and around the region that will add value to the present portfolio of quality office buildings.

Although K-REIT Asia's present focus is within Singapore, business development efforts continue in both mature as well as growth cities in Asia. The primary focus is on quality assets located in the respective central business districts of the major regional metropolitan centres. Potential acquisitions are evaluated based on stringent criteria, which involves a thorough review of exposures, risk and return, and overall value-add to K-REIT Asia's existing portfolio and future growth expectations.

K-REIT Asia maintained its position as a 'pure-office' commercial REIT as of the end of December 2006. New opportunities may involve elements of retail and other ancillary commercial uses that will complement predominantly office-use developments.

As Asia continues to display strong growth and gross domestic product per capita continues to climb, K-REIT Asia believes the need for the quality office space will continue to grow regionally. The Manager will therefore continue to source commercially-viable opportunities within the region where K-REIT Asia's interests are best served.



### Capital management

Looking ahead, the Manager is exploring potential acquisitions via direct, indirect and partial ownership routes to grow the property portfolio through potential acquisitions from the current size of \$677 million as at 31 December 2006 to \$2 billion in the next few years.

The Manager endeavours to optimise K-REIT Asia's capital structure and cost of capital within the borrowing limits set out in the Property Fund Guidelines.

In May 2006, K-REIT Asia put in place a \$190.1 million five-year fixed rate term loan facility granted by a special purpose company, Blossom Assets Limited, to refinance the bridging loan drawn down for the acquisition of K-REIT Asia's initial properties. The fixed-rate term loan facility was funded by issuing €95.4 million secured commercial mortgage-backed securities 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.

Blossom Assets Limited established a \$3 billion Multicurrency Secured Medium Term Loan Programme, which provides greater certainty in funding K-REIT Asia's future debt requirements and tapping a wider investor base for funds. K-REIT Asia also has in place a short-term credit facility of \$26 million granted by a financial institution. The credit facility was not drawn down as at 31 December 2006.

For the financial period ended 31 December 2006, K-REIT Asia's outstanding borrowings totalled \$190.1 million, or 27.4% of the value of its total assets.

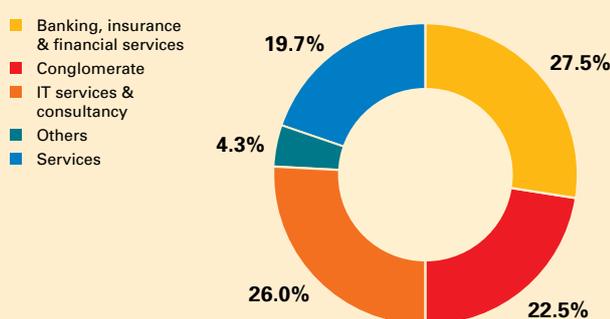
As at 31 December 2006, K-REIT Asia's weighted average funding cost was at 4.03% per annum, with an interest service coverage ratio of 2.7 times.

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

**Key statistics as at 31 December 2006**

Location	30 Cecil Street
Net lettable area <sup>1</sup>	10,074 sm (108,435 sf)
Title	Leasehold estate of 99 years commencing 15 January 1996
Committed occupancy	100%
Purchase price (on acquisition)	\$117.7 million
Valuation (as at 31 Dec 2006)	\$128 million
Number of tenants	14

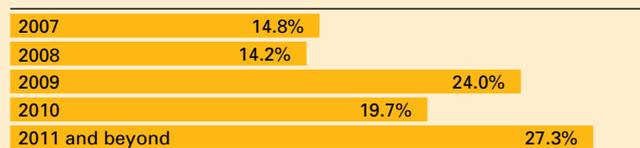
**Tenant business sector analysis <sup>2</sup>**



**Top 5 tenants**

Ranking	Tenant	% of Gross Rent <sup>2</sup>
1	The McGraw Hill Companies, Inc	22.5%
2	The Executive Centre	19.7%
3	Convergys Singapore Pte Ltd	17.3%
4	KBC Bank	11.6%
5	Prudential Fund Management Services	5.5%

**Lease expiry profile <sup>3</sup>**



<sup>1</sup> K-REIT Asia owns approximately 44.4% of the strata area of Prudential Tower.

<sup>2</sup> Based on Gross Rent for the month of December 2006.

<sup>3</sup> Based on expiring leases as a percentage of Gross Rent for the month of December 2006.



**“We chose Prudential Tower in 1999 for the location, quality of building and its reputation. Since then, we have doubled our capacity to two floors and extended our lease on three occasions. We appreciate the responsiveness of the management to our requests as a supportive building management is essential for our businesses.”**

**Stephen Chatham**  
Group Services Manager  
The Executive Centre

K-REIT Asia owns 44.4% of the strata area of Prudential Tower, a 30-storey Grade A office building situated in Raffles Place.

In the heart of the financial district, Prudential Tower is located at the junction of Church Street and Cecil Street, within a five-minute walk from Raffles Place MRT station.

It 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.

The property has a net lettable area of 10,074 sm as at 31 December 2006. It houses major tenants such as KBC Bank, The Executive Centre and The McGraw Hill Companies.

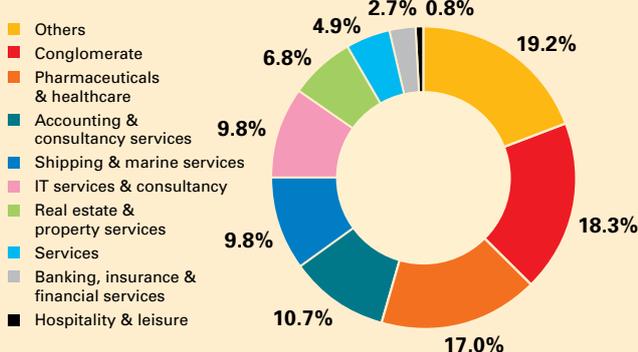
There are 181 parking lots located on the second to ninth storey. These lots are common property owned by the management corporation of Prudential Tower.

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.

**Key statistics as at 31 December 2006**

Location	10 Hoe Chiang Road and 240 Tanjong Pagar Road
Net lettable area	40,044 sm (431,030 sf)
Title	Estate in fee simple
Committed occupancy	100%
Purchase price (on acquisition)	\$353.5 million
Valuation (as at 31 Dec 2006)	\$367 million
Number of tenants	68
Number of car park lots	288

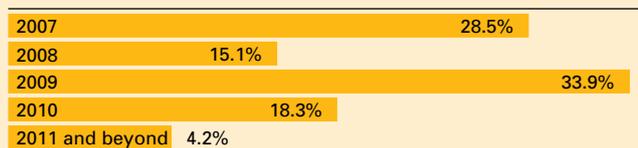
**Tenant business sector analysis <sup>1</sup>**



**Top 5 tenants**

Ranking	Tenant	% of Gross Rent <sup>1</sup>
1	GE Pacific Pte Ltd	18.3%
2	Swan Trustees Limited	9.1%
3	Singapore Business Federation	5.3%
4	Novartis (Singapore) Pte Ltd	5.2%
5	Wan Hai International Pte Ltd	3.9%

**Lease expiry profile <sup>2</sup>**



<sup>1</sup> Based on Gross Rent for the month of December 2006.

<sup>2</sup> Based on expiring leases as a percentage of Gross Rent for the month of December 2006.



**“Keppel Towers is well-maintained and enjoys an accessible location well-served by public transportation and surrounded by various amenities. We are also pleased with the functional floor plate design which allows us to utilise the space efficiently.”**

**Jean Lim**

Administration Manager (Asia/Pacific)  
Novartis (Singapore) Pte Ltd

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 40,044 sm as at 31 December 2006. Keppel Towers and GE Tower sit on a rare freehold site in the CBD.

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, Getronics, Novartis and Singapore Business Federation.

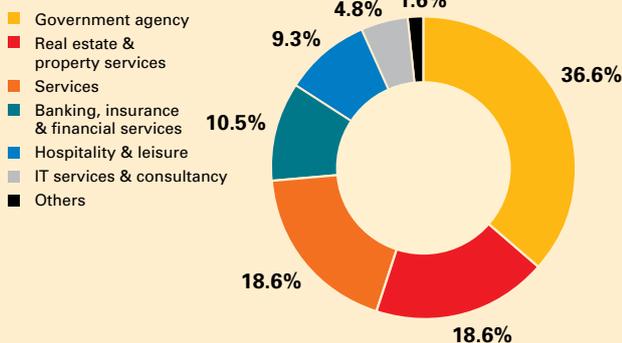
The car park comprises 288 lots located on the second and third storey, as well as a roof top garden on the fourth storey.

**Bugis Junction won several awards for reflecting an innovative and modern interpretation of urban development.**

**Key statistics as at 31 December 2006**

Location	230 Victoria Street
Net lettable area	22,990 sm (247,462 sf)
Title	Leasehold estate of 99 years commencing 10 September 1990
Committed occupancy	100%
Purchase price (on acquisition)	\$159.5 million
Valuation (as at 31 Dec 2006)	\$182 million
Number of tenants	13

**Tenant business sector analysis <sup>1</sup>**



**Top 5 tenants**

Ranking	Tenant	% of Gross Rent <sup>1</sup>
1	International Enterprise Singapore	36.6%
2	Keppel Land International Limited	17.8%
3	J.V Fitness Pte Ltd	17.6%
4	InterContinental Hotels Group (Asia Pacific) Pte Ltd	9.4%
5	Prudential Assurance Company Singapore	9.3%

**Lease expiry profile <sup>2</sup>**



<sup>1</sup> Based on Gross Rent for the month of December 2006.

<sup>2</sup> Based on expiring leases as a percentage of Gross Rent for the month of December 2006.



**“InterContinental Hotels Group’s Asia Pacific headquarters have been located at Bugis Junction Towers for seven years now. During this time, we have grown together with the many improvements that have been put in place. The location and the convenient facilities make this a very ideal office location.”**

**Clarence Tan**

Vice President, Business Support  
InterContinental Hotels Group (Asia Pacific)

Bugis Junction Towers is a 15-storey office tower located along Victoria Street and is linked to Bugis MRT station via the basement.

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

Bugis Junction 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

The building has a net lettable area of 22,990 sm as at 31 December 2006 and is home to major tenants like I.E. Singapore, California Fitness, InterContinental Hotels Group and Prudential Assurance.

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

# Unit price performance

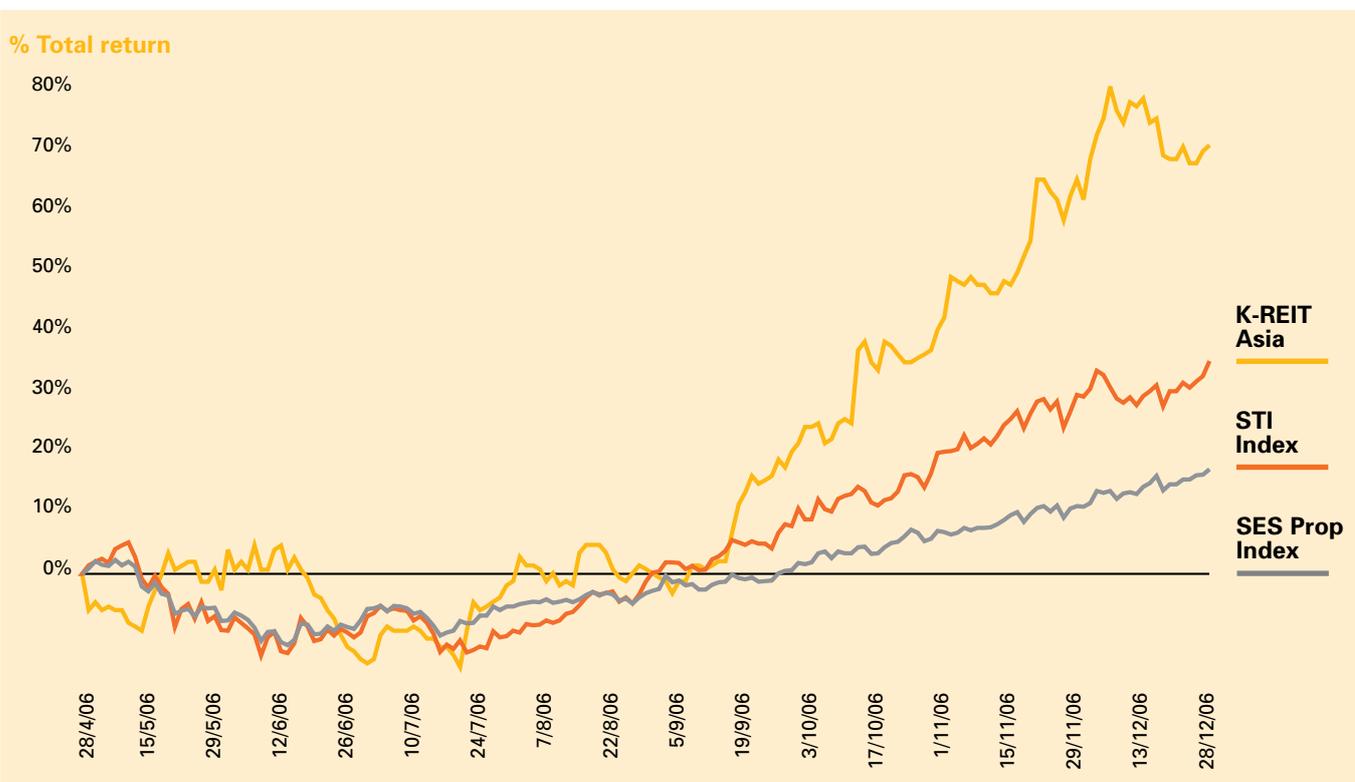
## K-REIT Asia's total return from listing date up to end-December 2006 was 144.8%.

K-REIT Asia was listed on the SGX-ST by way of an Introduction on 28 April 2006 with the issue of 240.5 million Units. As sponsor of K-REIT Asia, Keppel Land retained approximately 40% of the issued Units and the remaining Units were distributed *in specie* to Keppel Land's shareholders. As at 31 December 2006, a total of 241.6 million Units were issued after taking into account 1.1 million Units issued in payment to the Manager of K-REIT Asia for management fees.

K-REIT Asia opened at a unit price of \$1.04 and closed at a unit price of \$1.49 on its first trading day on 28 April 2006. It closed at a unit price of \$2.50 on 29 December 2006, reflecting an appreciation of 140.4%. K-REIT Asia's unit closing prices reached a high of \$2.68 on 7 December 2006 and a low of \$1.26 on 20 July 2006. Between 28 April 2006 and 31 December 2006, the average daily traded volume was 588,538 units.

K-REIT Asia's price outperformed broader market indices such as the Straits Times Index (STI) and the Singapore Property Equities Index (SES PROP), which rose 14.4% and 31.8% respectively over the same period. K-REIT Asia's total return based on the opening price on 28 April 2006 and the closing price on 29 December 2006 was 144.8%. Over the same period, total returns for the STI and SES PROP were 17.3% and 35.2% respectively.

K-REIT Asia's unit price performance is a clear indication of the strong demand and support from investors. It reflects the confidence that Unitholders have in K-REIT Asia as an investment vehicle for delivering both stable distribution income as well as long-term capital appreciation.



Source: Bloomberg

# Significant events



## 28 November 2005

Establishment of K-REIT Asia and proposed distribution *in specie* of units in K-REIT Asia to shareholders of Keppel Land, the sponsor of K-REIT Asia

## 20 March 2006

Introductory Document on K-REIT Asia despatched to Keppel Land's shareholders

## 26 April 2006

Completed acquisition of initial property portfolio valued at \$630.7 million

- Prudential Tower Property (44.4% of the strata area of Prudential Tower)
- Keppel Towers and GE Tower
- Bugis Junction Towers

## 28 April 2006

Listing on SGX-ST Main Board by way of an Introduction

## 17 May 2006

Secured fixed-rate mortgage loans of approximately \$190.1 million

## 1 August 2006

Payment of management fees by way of 516,401 units issued for the period from 26 April to 30 June 2006

## 28 August 2006

Distribution payment of 1.16 cents per unit to Unitholders for the period from 26 April to 30 June 2006

## 30 October 2006

Payment of management fees by way of 585,965 units issued for the period from 1 July to 30 September 2006

## 1 February 2007

Payment of management fees by way of 387,271 units issued for the period from 1 October to 31 December 2006

## 28 February 2007

Distribution payment of 3.47 cents per unit to Unitholders for the period from 1 July to 31 December 2006

# Corporate governance



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 it is essential to protect the best interests of the unitholders of K-REIT Asia (“Unitholders”). Abiding by good corporate governance is also critical to the performance and success of the Manager.

The Manager uses the new 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. It will manage 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 return 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 will use its best endeavours to carry on and conduct its business 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 in the short, medium and long-term with a view to maximising income of K-REIT Asia;
- (2) Acquire, sell or otherwise deal with any real estate in accordance with 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) in accordance with the provisions of the Trust Deed;
- (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 modeling, performance analysis and reporting, corporate treasury functions and ongoing financial market analysis;
- (6) Ensure compliance with the applicable provisions of the Companies Act and the Securities and Futures Act of Singapore, and other relevant legislation, the Listing Manual of Singapore Exchange Securities Trading Limited (“SGX-ST”), the Code on Collective Investment Schemes (including the Property Funds Guidelines) issued by the Monetary Authority of Singapore, the Trust Deed, the tax ruling issued by the Inland Revenue Authority of Singapore on the taxation of K-REIT Asia and its Unitholders and all relevant contracts;
- (7) Communications with Unitholders; and
- (8) Supervising K-REIT Asia Property Management Pte Ltd (the “Property Manager”), which performs the day-to-day property management functions (including leasing, accounting, budget, marketing, promotion, property management, maintenance and administration) pursuant to the Property Management Agreement.

K-REIT Asia, constituted as a trust, is externally managed by the Manager and accordingly, has no personnel of its own. The Manager appoints experienced and well-qualified management to handle its day-to-day operations. 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 and the

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

Second Supplemental Trust Deed dated 17 March 2006 (collectively, the "Trust Deed"). The Trust Deed outlines certain circumstances under which the Manager can be retired in favour of a corporation approved by the Trustee, or be removed by notice in writing given by the Trustee upon the occurrence of certain events, including an ordinary resolution duly proposed and passed by more than 50% of Unitholders present and voting at a meeting of Unitholders, with no Unitholder (including the Manager) being disenfranchised. The Trust Deed also provides that 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 K-REIT Asia, convene a meeting of Unitholders.

### 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 entrusted with the responsibility 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 have consistently done so.

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

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 delegation of authority and approval sub-limits are also provided at management level to facilitate operational efficiency.

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 FY2006, as well as the attendance of each Board member at these meetings, are disclosed in the following table:

	Board meetings <sup>1</sup>	Audit Committee meetings	Nominating and Remuneration Committee meeting <sup>2</sup>
Professor Tsui Kai Chong	3	–	1
Mr Kevin Wong Kingcheung	3	2	–
Mr Tan Swee Yiow	3	–	–
Mrs Lee Ai Ming	3	–	–
Mr Lim Poh Chuan	3	2	1
Dr Chin Wei-Li, Audrey Marie	3	2	1
No. of meetings held	3	2	1

<sup>1</sup> The acquisition of K-REIT Asia's existing portfolio of properties was completed on 26 April 2006 and K-REIT Asia was listed on the SGX-ST on 28 April 2006. Therefore, only 3 Board meetings and 2 Audit Committee meetings were held in FY2006.

<sup>2</sup> The first meeting of the Nominating and Remuneration Committee was held in February 2007.

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.

### 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. The independent Directors bring strong independent judgment to bear on issues for the Board's consideration.

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 will be 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 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 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 Directors 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 will also work 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") in January 2007 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**

In February 2007, the NRC recommended, and the Board approved, a formal process for the selection of new Directors to increase transparency of the nominating process in identifying and evaluating nominees for Directors. 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 conducts formal interview of short-listed candidates to assess suitability and to ensure that the candidate(s) are aware of the expectations and the level of commitment required; and
- (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 the responsibility of re-nomination having regard to the Director's contribution and performance (such as attendance, preparedness, participation and candour), including, if applicable, as an independent Director. The Directors will submit themselves for re-nomination and re-election at regular intervals of at least once every three years.

The NRC is also charged with determining the "independence" status of the Directors annually. Please refer to page 51 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 20 to 23 and 64: 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 three 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

Pages 69: Unitholding in K-REIT Asia (if any) as at 21 January 2007.

#### 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 FY2006 was done by the NRC at its meeting held in February 2007. At the NRC meeting, the NRC 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 five 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 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 Unitholder 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 concerning the Manager's progress or shortcomings in meeting the strategic business objectives or financial targets of K-REIT Asia, prior to Board meetings and on an on-going 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 from the date of listing of K-REIT Asia on the SGX-ST.

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 Unitholder 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 and the Chairman. The NRC also reviews the

remuneration of senior management of the Manager. 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 from K-REIT Asia.

#### Policy in respect of Directors' remuneration

The Directors are paid Directors' fees, the amount of which are 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 chairmen of the Board and of the Audit Committee are paid a higher fee compared with members of the same in view of the greater responsibility carried by that office. The amount of Directors' fees payable to the Directors is subject to the approval of the Manager's shareholder at the Manager's annual general meetings.

The framework in FY2006 for determining the Directors' fees is as follows:

Main Board	Chairman	\$45,000 per annum
	Director	\$30,000 per annum
Audit Committee	Chairman	\$12,000 per annum
	Member	\$8,000 per annum

The Manager has determined the above Directors' fees based on Keppel Group's guidelines.

#### 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 cash and annual performance incentive. The annual fixed cash 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 in FY2006.

### Level and mix of remuneration of Directors and top five Key Executives (who are not also Directors) for the year ended 31 December 2006

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 below:

### 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 Chief Executive Officer and whose remuneration exceeded \$150,000 during FY2006. "Immediate family member" means the spouse, child, adopted child, step-child, brother, sister and parent.

### 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).

Remuneration band and name of Director	Base/Fixed salary	Variable or performance-related income/bonuses	Directors' fee	Benefits-in-kind	Stock options granted
<b>Below \$250,000</b>					
Professor Tsui Kai Chong	–	–	100%	–	–
Mr Kevin Wong Kingcheung	–	–	100%	–	–
Mr Tan Swee Yow	–	–	100%	–	–
Mrs Lee Ai Ming	–	–	100%	–	–
Mr Lim Poh Chuan	–	–	100%	–	–
Dr Chin Wei-Li, Audrey Marie	–	–	100%	–	–
Remuneration band and name of top five Key Executives	Base/Fixed salary	Variable or performance-related income/bonuses	Directors' fee	Benefits-in-kind	Stock options granted
<b>Below \$250,000</b>					
Mr Daniel Cerf	78%	22%	–	–	–
Mr John Chng	73%	27%	–	–	–
Mrs Melissa Teh	70%	30%	–	–	–
Ms Serena Toh	70%	30%	–	–	–
Ms Chiah Soo Ling	73%	27%	–	–	–

The Board has embraced openness and transparency in the conduct of the Manager's affairs, whilst preserving the commercial interests of K-REIT Asia. Financial reports and other price-sensitive information are disseminated to Unitholders through announcements via SGXnet to the SGX-ST, 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 the 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, the majority 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 Mr Kevin Wong Kingcheung.

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 62 and 63 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 twice during the year, and once in January 2007 without the presence of the management.

During the year, the AC performed independent reviews 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, 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 twice in 2006 and once in January 2007 to review the financial performance of K-REIT Asia against a previously approved budget. The Board also reviews the business risks of K-REIT Asia.

In assessing business risk, the Board takes into consideration the economic environment and the risks relevant to the property industry. The Manager has determined that significant risk for K-REIT Asia will most likely arise when making property investment decisions. Accordingly, the Manager has set out procedures to be followed when making such decisions. In accordance with these internal control procedures, management ensures comprehensive due diligence is carried out in relation to any investment proposal and a suitable determination is made as to whether the anticipated return on investment is appropriate having regard to the level of risk.

All investments must be reviewed by the Board and approvals given only after proper analysis have been carried out including addressing the risks involved in the transaction. 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.

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.

#### Internal audit

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

The internal audit function of the Manager is performed by the Group Internal Audit department of Keppel Corporation Limited ("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 standards, performance standards and implementation standards.

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 shareholder participation at Annual General Meetings**

The Listing Manual of the SGX-ST requires that a listed entity discloses to the market matters that would be likely to have a material effect on the price of the entity's securities. In line with the disclosure obligations of K-REIT Asia, the Manager's policy is to inform Unitholders of all major developments that impact K-REIT Asia. During the year, a continuous disclosure process was in place to ensure compliance with such obligations.

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.

Material information are 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.

The guidelines under Principle 15 are not applicable as K-REIT Asia, as a real estate investment trust, is not required to hold any annual general meetings. However, the Manager is committed to abide by the guidelines under Principle 15 if and when a general meeting of Unitholders is convened.

#### Dealings in K-REIT Asia units

The Trust Deed requires each Director to give notice to the Manager of his acquisition of units or of changes in the number of units which he holds or in which he has an interest, within two (2) business days after such acquisition or the occurrence of the event giving rise to changes in the number of units which he holds or in which he has an interest.

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 employees. Under these guidelines, Directors and employees are prohibited from dealing in K-REIT Asia units on short-term considerations.

The Manager also issues circulars to its Directors and employees of the Manager informing them that they are prohibited from dealing in K-REIT Asia units:

- (a) in the period commencing one month before the public announcement of K-REIT Asia's annual results and (where applicable) property valuations and two weeks before the public announcement of K-REIT Asia's quarterly results, and ending on the date of announcement of the relevant results or, as the case may be, property valuations; and
- (b) at any time while in possession of unpublished price-sensitive information.

In addition, the Manager will announce to the SGX-ST the particulars of its holdings in the units and any changes thereto within two business days after the date on which it acquires or disposes of any units, as the case may be. The Manager will not deal in the units one month before the public announcement of K-REIT Asia's annual results and (where applicable) property valuations and two weeks before the public announcement of K-REIT Asia's quarterly results, and ending on the date of announcement of the relevant results or, as the case may be, property valuations.

### 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 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 page 61 and 62; and
- (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 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 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 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 Audit Committee ("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 Funds Guidelines).

Further, the following procedures will be 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 S\$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 Funds 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 Funds Guidelines and/or the Listing Manual relating to the transactions 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 (i.e. the Unitholder/Sponsor/adviser). 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 Funds 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-ST 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 party transactions which are subject to Rules 905 and 906 of the Listing Manual in a particular financial year will be 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 Funds 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 Funds 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.

In this section, "interested party" refers to any "interested person" (as defined in the Listing Manual) and/or, as the case may be, an "interested party" (as defined in the Property Funds Guidelines).

## 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 Funds 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 Funds Guidelines relating to "interested party transactions" (as defined therein) (both such type 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.

(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	Member	–
Mr Tan Swee Yiow	Chief Executive Officer and Director	–	–
Mrs Lee Ai Ming	Independent Non-Executive Director	–	–
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 Guidelines or Principles**

**Page Reference In Corporate Governance Report**

**Guideline 1.3**

Delegation of authority, by the Board to any Board committee, to make decisions on certain board matters

Page 50

**Guideline 1.4**

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 51

**Guideline 1.5**

The type of material transactions that require board approval under internal guidelines

Page 50

**Guideline 2.2**

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

**Guideline 3.1**

Relationship between the Chairman and CEO where they are related to each other

Not Applicable

**Guideline 4.1**

Composition of nominating committee

Page 52

**Guideline 4.5**

Process for selection and appointment of new directors to the board

Page 52 and 53

<b>Guideline 4.6</b> Key information regarding directors, which directors are executive, non-executive or considered by the nominating committee to be independent	Page 20 to 23 and 64	<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 56
<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	Page 53 and 54	<b>Guideline 9.4</b> Details of employee share schemes	Not Applicable
<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	Page 55 and 56	<b>Guideline 11.8</b> Composition of audit committee and details of the committee's activities	Page 57
<b>Guideline 9.1</b> Composition of remuneration committee	Page 52	<b>Guideline 12.2</b> Adequacy of internal controls, including financial, operational and compliance controls, and risk management systems	Page 58
<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 56		
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 56		

# Investor relations

## The Manager of K-REIT Asia believes in maintaining an open-door policy with the investment community.

The Manager of K-REIT Asia believes that accurate, timely and transparent communication with stakeholders enables the development of strong and mutually beneficial relationships with tenants, Unitholders and the investment community.

In light of the strengthening office market, there has been heightened interest from the investment community, the media and the public to find out more about K-REIT Asia. As K-REIT Asia was established by way of distribution *in specie* to existing shareholders of Keppel Land, efforts were made to explain the rationale of the spin-off of four office buildings into K-REIT Asia.

### Disseminating information to the public

K-REIT Asia's website ([www.kreitasia.com](http://www.kreitasia.com)) was launched on 20 March 2006 to serve as a central point for disseminating information on the Trust to the public. The website offers a link to the Introductory Document, which provides detailed information on the formation, structure and objectives of the Trust. In accordance with K-REIT Asia's commitment to delivering accurate, timely and transparent information to Unitholders and the general public, results announcements are made within 30 days from the end of the reporting period. Financial results and press releases on significant corporate developments are updated on the website on the same day that they are released to the SGX-ST.

The website also provides Frequently Asked Questions (FAQs) which address commonly posed questions. The FAQs are updated regularly to ensure that the questions and answers remain relevant and accurate through the course of time. General information on the Trust, annual reports and shareholders' information are also updated regularly on the website to provide investors and the general public with easy access to the latest information on the Trust. In addition, the website also provides "live" Unit prices and allows investors to chart the direction of K-REIT Asia's unit price.

### Communications with the investment community

Dedicated emails and telephone lines for direct communications between Unitholders and the Manager have also been established. The education and familiarisation process continued with management in other meetings with institutional investors.

K-REIT Asia was invited to and participated in several investor presentations and meetings organised by renowned international financial institutions. One-on-one meetings and business luncheons with analysts involving top management were also held frequently. K-REIT Asia participated in more than 30 meetings in Singapore and more than 20 overseas between end-2005 and end-2006. Amongst these, management spoke with Unitholders and potential investors in Singapore, Hong Kong and the United Kingdom at Real Estate and REIT conferences hosted by various major institutions such as UBS, Morgan Stanley, Deutsche Bank and JP Morgan.

The Manager of K-REIT Asia believes in maintaining an open-door policy with the investment community. The Manager also believes that meetings with analysts will provide more comprehensive and in-depth coverage of the Trust, which will in turn provide the investing community with more research resources. At these meetings, senior management exchange views, address any concerns and update investors on recent major strategic developments. This direct contact gives analysts and fund managers a better understanding of the Manager's sphere of operations and rationale for undertaking certain investments and acquisitions. In its debut year, eight local and foreign investment banks have initiated research coverage on K-REIT Asia.

Through this wide spectrum of initiatives, the Manager hopes to raise awareness and understanding of K-REIT Asia, and provide clarity on its business developments, financial performance and growth strategies.

# Financial calendar

## Financial calendar

20 July 2006	Announcement of first interim financial results for the period from 26 April to 30 June 2006 – Distributable income exceeds forecast by 17.5%
18 October 2006	Announcement of financial results for the period from 26 April to 30 September 2006 – Annualised distribution per unit exceeds forecast by 22%
22 January 2007	Announcement of financial results for the period from 26 April to 31 December 2006 – Distribution per unit outperforms forecast by 24.5%
March 2007	Despatch of K-REIT Asia's first annual report to Unitholders
April 2007	Announcement of financial results for the period from 1 January to 31 March 2007
July 2007	Announcement of financial results for the period from 1 January to 30 June 2007
October 2007	Announcement of financial results for the period from 1 January to 30 September 2007
January 2008	Announcement of financial results for the period from 1 January to 31 December 2007

# Statistics of unitholdings

## As at 1 March 2007

### Issued and fully paid Units

241,997,637 Units outstanding as at 1 March 2007.  
(Voting rights: 1 vote per Unit)

There is only one class of Units in K-REIT Asia.  
Market Capitalisation \$764,712,533 (based on market closing price of \$3.16 on 1 March 2007)

### Distribution of unitholdings

Size of holdings	No. of Unitholders	%	No. of Units	%
1 – 999	4,062	62.86	1,379,789	0.57
1,000 – 10,000	2,225	34.43	5,255,356	2.17
10,001 – 1,000,000	165	2.55	7,698,399	3.18
1,000,001 and above	10	0.16	227,664,093	94.08
<b>TOTAL</b>	<b>6,462</b>	<b>100.00</b>	<b>241,997,637</b>	<b>100.00</b>

### Twenty largest unitholders

No.	Name	No. of Units	%
1	Keppel Land Limited	96,850,528	40.02
2	Keppel Real Estate Investment Pte Ltd	75,939,546	31.38
3	Raffles Nominees Pte Ltd	12,923,258	5.34
4	DBS Nominees Pte Ltd	11,078,655	4.58
5	Citibank Nominees S'pore Pte Ltd	10,114,599	4.18
6	DBSN Services Pte Ltd	8,731,550	3.61
7	HSBC (Singapore) Nominees Pte Ltd	4,860,744	2.01
8	Morgan Stanley Asia (S'pore) Securities Pte Ltd	3,553,800	1.47
9	United Overseas Bank Nominees Pte Ltd	2,121,776	0.88
10	K-REIT Asia Management Limited	1,489,637	0.62
11	Oh Min Shing Cynthia	570,000	0.24
12	Asdew Acquisitions Pte Ltd	482,000	0.20
13	DB Nominees (S) Pte Ltd	476,426	0.20
14	OCBC Nominees Singapore Pte Ltd	465,376	0.19
15	Selat Pte Limited	338,394	0.14
16	Kim Eng Securities Pte. Ltd.	308,082	0.13
17	BNP Paribas Nominees Singapore Pte Ltd	293,800	0.12
18	Merrill Lynch (S'pore) Pte Ltd	276,543	0.11
19	Island Investment Company Pte Ltd	180,943	0.07
20	Hong Leong Finance Nominees Pte Ltd	170,200	0.07
	<b>TOTAL</b>	<b>231,225,857</b>	<b>95.56</b>

### Manager's Directors' unitholdings

As shown in the Register of Directors' Unitholdings as at 21 January 2007

Name of Director	Units held
Tsui Kai Chong	NIL
Kevin Wong Kingcheung	247,880 (Direct)
Tan Swee Yow	60,160 (Direct)
Lee Ai Ming	NIL
Lim Poh Chuan	NIL
Chin Wei-Li, Audrey Marie	NIL

### Substantial Unitholders

As shown in the Register of Substantial Unitholders as at 1 March 2007

Name	Units held	%
Temasek Holdings (Private) Limited	174,470,311 (Deemed) <sup>1</sup>	72.10
Keppel Corporation Limited	174,279,711 (Deemed) <sup>2</sup>	72.02
Keppel Land Limited	96,850,528 (Direct)	40.02
	1,489,637 (Deemed) <sup>3</sup>	0.62
Keppel Real Estate Investment Pte Ltd	75,939,546 (Direct)	31.38
JPMorgan Chase & Co. and its affiliates	12,415,000 (Deemed) <sup>4</sup>	5.13

Notes:

<sup>1</sup> 174,470,311 Units – deemed through Keppel Corporation Limited, DBS Group Holdings Ltd, and Singapore Technologies Engineering Ltd.

<sup>2</sup> 1,489,637 Units – held by K-REIT Asia Management Limited, a wholly-owned subsidiary of Keppel Land Limited, which is in turn a subsidiary of Keppel Corporation Limited.

96,850,528 Units – held by Keppel Land Limited, a subsidiary of Keppel Corporation Limited.

75,939,546 Units – held by Keppel Real Estate Investment Pte Ltd, a wholly-owned subsidiary of Keppel Corporation Limited.

<sup>3</sup> 1,489,637 Units – held by K-REIT Asia Management Limited, a wholly-owned subsidiary of Keppel Land Limited.

<sup>4</sup> 12,415,000 Units – deemed through Banque General du Luxembourg, DBS Bank Limited, DBS Nominees Pte Ltd, DBSN Services Pte Ltd, HSBC (Singapore) Nominees Pte Ltd, Citibank Singapore, JPMorgan Chase Bank, Raffles Nominees (Pte) Ltd and State Street Bank.

### Free float

Based on information made available to the Manager as at 1 March 2007, no less than approximately 22.65% of the units in K-REIT Asia are held under public hands. Accordingly, Rule 723 of the Listing Manual of the SGX-ST has accordingly been complied with.

# Corporate information

## **K-REIT Asia**

*Registered address*

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

20 Cecil Street  
#28-01 Equity Plaza  
Singapore 049705  
Phone: (65) 6823 5000  
Fax: (65) 6538 2090  
Website address: [www.kreitasia.com](http://www.kreitasia.com)

## **Trustee**

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

20 Cecil Street  
#28-01 Equity Plaza  
Singapore 049705  
Phone: (65) 6823 5000  
Fax: (65) 6538 2090

## **Auditor**

### **Ernst & Young**

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

## **Unit registrar and unit transfer office**

### **Lim Associates (Pte) Ltd**

3 Church Street  
#08-01 Samsung Hub  
Singapore 049483  
Phone: (65) 6536 5355  
Fax: (65) 6536 1360

## **The Manager**

*Registered address*

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

1 HarbourFront Avenue  
#18-01 Keppel Bay Tower  
Singapore 098632  
Phone: (65) 6835 7477  
Fax: (65) 6835 7747  
Email: [investor.relations@kreitasia.com](mailto: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  
Mr Kevin Wong Kingcheung  
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

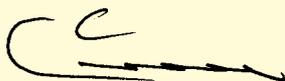
For the financial period from 28 November 2005 (date of constitution) to 31 December 2006

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 (the "Units"). 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 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 75 to 95 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 DexiaTrust Services Singapore Limited**



**Marcel Camille Weicker**

Director

Singapore, 6 March 2007

# Statement by the Manager

For the financial period from 28 November 2005 (date of constitution) to 31 December 2006

In the opinion of the directors of K-REIT Asia Management Limited, the accompanying financial statements set out on pages 75 to 95 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 2006, the total return, distributable income, movement in Unitholders' funds and cash flows for the financial period from 28 November 2005 (date of constitution) to 31 December 2006 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 Yiew**  
Chief Executive Officer and Director

Singapore, 6 March 2007

# Auditors' report to the Unitholders of K-REIT Asia

We have audited the accompanying financial statements of K-REIT Asia (the "Trust") set out on pages 75 to 95, which comprise the Balance Sheet as at 31 December 2006, Statement of Total Return, Distribution Statement, Portfolio Statement, Statement of Movements in Unitholders' Funds and Statement of Cash Flows of the Trust for the financial period from 28 November 2005 (date of constitution) to 31 December 2006, and a summary of significant accounting policies and other explanatory notes.

## Responsibility of the Manager and Trustee for the Financial Statements

The Manager and Trustee are 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. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

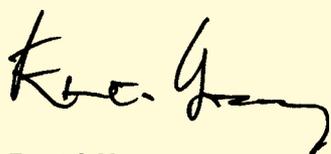
## Auditors' Responsibility

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 and Trustee, 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.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Trust as at 31 December 2006, the total return, distributable income, movements in Unitholders' funds and cash flows for the financial period from 28 November 2005 (date of constitution) to 31 December 2006 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.



**Ernst & Young**

Certified Public Accountants

Singapore, 6 March 2007

# Balance sheet

As at 31 December 2006

	Note	\$'000
<b>Non-current assets</b>		
Investment properties	3	677,000
<b>Current assets</b>		
Trade and other receivables	4	1,045
Cash and cash equivalents	5	16,814
		17,859
<b>Total assets</b>		694,859
<b>Current liabilities</b>		
Trade and other payables	6	4,804
Current portion of security deposits		2,280
		7,084
<b>Non-current liabilities</b>		
Interest-bearing liabilities (secured)	7	189,042
Non-current portion of security deposits		6,336
		195,378
<b>Total liabilities</b>		202,462
<b>Net assets</b>		492,397
Represented by :		
<b>Unitholders' funds</b>		492,397
<b>Units in issue ('000)</b>	8	241,610
<b>Net asset value per unit</b>		\$ 2.04

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

# Statement of total return

For the financial period from 28 November 2005 (date of constitution) to 31 December 2006

	Note	\$'000
<b>Profit and loss account</b>		
Gross revenue	9	23,861
Property expenses	10	(7,047)
<b>Net property income</b>		<b>16,814</b>
Interest income		236
Manager's management fees	11	(2,665)
Trust expenses	12	(772)
Borrowing costs	13	(5,246)
<b>Net profit before tax</b>		<b>8,367</b>
Income tax expense	14	-
<b>Net profit after tax</b>		<b>8,367</b>
<b>Total return</b>		
Net profit after tax		8,367
Net appreciation on revaluation of investment properties credited directly to asset revaluation reserve		46,300
<b>Total return for the period</b>		<b>54,667</b>
<b>Earnings per unit (cents)</b>		
	15	
Basic		3.47
Diluted		3.47

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

# Distribution statement

For the financial period from 28 November 2005 (date of constitution) to 31 December 2006

	<b>\$'000</b>
<b>Net profit before tax</b>	8,367
<b>Net tax adjustments (Note A)</b>	2,807
<hr/>	
<b>Taxable income available for distribution to Unitholders</b>	11,174
<b>Distribution to Unitholders:</b>	
Distribution of 1.16 cents per unit for the period from 26/4/2006 to 30/6/2006 (Note B)	(2,789)
<hr/>	
<b>Taxable income available for distribution to Unitholders at end of the period</b>	<b>8,385</b>

## **Note A - Net tax adjustments comprise:**

### **Non-tax deductible/(chargeable) items:**

- Manager's management fees payable in Units	2,665
- Trustee's fees	65
- Amortisation of transaction costs	195
- Non-tax deductible expenses and certain expenses claimed on an incurred basis	(118)
<hr/>	
<b>Net tax adjustments</b>	<b>2,807</b>

**Note B** - K-REIT Asia was established on 28 November 2005. The acquisition of its initial properties was completed on 26 April 2006 and its first distribution income related only to the period from 26 April 2006 to 30 June 2006.

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

# Portfolio statement

As at 31 December 2006

Description of property	Acquisition date	Tenure of land	Term of lease	Remaining term of lease	Acquired from	Location	Existing use	Valuation	Percentage of
								as at 31/12/2006 \$'000	net assets as at 31/12/2006 %
<b>Investment Properties in Singapore</b>									
Prudential Tower Property <sup>1</sup>	26/4/2006	Leasehold	99 years	88 years	Keppel Land (Tower D) Pte Ltd	30 Cecil Street	Commercial	128,000	26.0%
Keppel Towers and GE Tower	26/4/2006	Estate in fee simple	NA	NA	Mansfield Realty Limited	10 Hoe Chiang Road and 240 Tanjong Pagar Road	Commercial	367,000	74.5%
Bugis Junction Towers	26/4/2006	Leasehold	99 years	82.7 years	BCH Office Investment Pte Ltd	230 Victoria Street	Commercial	182,000	37.0%
Investment properties, at valuation (Note 3)								677,000	137.5%
Other assets and liabilities (net)								(184,603)	-37.5%
Net assets								492,397	100.0%

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

The investment properties were acquired based on the average valuations as at 24 November 2005 undertaken by the independent property valuers, Colliers International Consultancy & Valuation (Singapore) Pte Ltd (commissioned by the vendors) and DTZ Debenham Tie Leung (SEA) Pte Ltd (commissioned by the trustee). Both independent valuers have appropriate professional qualifications and recent experience in the location and category of the properties being valued. The valuations are made on the basis of open market value which are determined based on direct comparison method, investment method, and discounted cash flow analysis. The valuations adopted were \$117,700,000, \$353,500,000 and \$159,500,000 for Prudential Tower Property, Keppel Towers and GE Tower, and Bugis Junction Towers, respectively.

The carrying amounts of the investment properties as at 31 December 2006 were based on independent valuations undertaken by Colliers International Consultancy & Valuation (Singapore) Pte Ltd on 31 December 2006. 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 direct comparison method, investment method, and discounted cash flow analysis. The valuations adopted were \$128,000,000, \$367,000,000 and \$182,000,000 for Prudential Tower Property, Keppel Towers and GE Tower, and Bugis Junction Towers, respectively. The increase in valuation has been credited to the asset revaluation reserve.

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.

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

# Statement of movements in Unitholders' funds

For the financial period from 28 November 2005 (date of constitution) to 31 December 2006

	Issued equity \$'000	Asset revaluation reserve \$'000	Accumulated profits \$'000	Total \$'000
<b>Net assets at 28 November 2005 (date of constitution)</b>	-	-	-	-
<b>Operations</b>				
Net profit after tax	-	-	8,367	8,367
Net appreciation on revaluation of investment properties	-	46,300	-	46,300
Net increase in net assets resulting from operations	-	46,300	8,367	54,667
<b>Unitholders' transactions</b>				
Creation of units	441,813	-	-	441,813
Establishment and issue expenses (Note 16)	(1,294)	-	-	(1,294)
Distribution to Unitholders	-	-	(2,789)	(2,789)
Net increase in net assets resulting from Unitholders' transactions	440,519	-	(2,789)	437,730
<b>Net assets at 31 December 2006</b>	440,519	46,300	5,578	492,397

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

# Statement of cash flows

For the financial period from 28 November 2005 (date of constitution) to 31 December 2006

	<b>\$'000</b>
<b>Cash flows from operating activities</b>	
Net profit before tax	8,367
Adjustments for:	
Interest income	(236)
Borrowing costs	5,246
Management fees payable in Units	2,665
<b>Operating income before reinvestment in working capital</b>	<b>16,042</b>
Increase in receivables	(1,029)
Increase in payables	3,515
Security deposits	8,616
<b>Net cash generated from operating activities</b>	<b>27,144</b>
<b>Cash flows from investing activities</b>	
Interest received	220
Purchase of investment properties (Note A)	(190,570)
<b>Net cash used in investing activities</b>	<b>(190,350)</b>
<b>Cash flows from financing activities</b>	
Distribution to Unitholders	(2,789)
Interest-bearing borrowings	190,085
Upfront debt arrangement costs	(1,203)
Establishment and issue expenses	(1,294)
Interest paid	(4,779)
<b>Net cash generated from financing activities</b>	<b>180,020</b>
<b>Net increase in cash and cash equivalents</b>	<b>16,814</b>
<b>Cash and cash equivalents at the beginning of period</b>	<b>-</b>
<b>Cash and cash equivalents at the end of period (Note 5)</b>	<b>16,814</b>

## Note A - Purchase of investment properties

Net cash outflow on purchase of investment properties is set out below:

	<b>\$'000</b>
Investment properties	630,700
Purchase consideration paid in Units	(440,130)
Cash consideration paid	190,570
<b>Net cash outflow</b>	<b>190,570</b>

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

# Notes to the financial statements

For the financial period from 28 November 2005 (date of constitution) to 31 December 2006

These notes form an integral part of the financial statements.

The financial statements were authorised for issue by the Manager and the Trustee on 6 March 2007.

## 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 K-REIT Asia in trust for the holders ("Unitholders") of units in K-REIT Asia (the "Units"). The address of the Trustee's registered office is 20 Cecil Street, Equity Plaza #28-01, Singapore 049705.

K-REIT Asia 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 K-REIT Asia 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.

K-REIT Asia commenced operations on 26 April 2006 upon the completion of the acquisition of its initial properties and has no income and expenses from 28 November 2005 to 25 April 2006.

K-REIT Asia has entered into several service agreements in relation to the management of K-REIT Asia 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 property.

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 K-REIT Asia 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 K-REIT Asia's net property income before the Manager's management fees and non-operating income and expenses.

The management fees in respect of the financial period from 26 April 2006 to 31 December 2007 will be paid in the form of Units and thereafter in the form of cash and/or Units (as the Manager may elect).

### 1. General (cont'd)

#### (b) Manager's management fees (cont'd)

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.

#### (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

The significant accounting policies of K-REIT Asia, which have been consistently applied in preparing the financial statements set out in this report, are as follows:

#### (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 ("MAS") 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) FRS and INT FRS not yet effective

K-REIT Asia has not applied the following FRS and INT FRS that have been issued but not yet effective:

		Effective date (Annual periods beginning on or after)
FRS 1	: Amendment to FRS 1 (revised), Presentation of Financial Statements (Capital Disclosures)	1 January 2007
FRS 40	: Investment Property	1 January 2007
FRS 107	: Financial Instruments: Disclosures	1 January 2007
INT FRS 107	: Applying the Restatement Approach under FRS 29, Financial Reporting in Hyperinflationary Economies	1 March 2006
INT FRS 109	: Reassessment of Embedded Derivatives	1 June 2006
INT FRS 110	: Interim Financial Reporting and Impairment	1 November 2006

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 40 as indicated below.

FRS 40, Investment Property

FRS 40, Investment Property, will be effective for financial periods beginning 1 January 2007.

K-REIT Asia's current policy is to carry investment properties at valuation with surplus on revaluation credited directly to asset revaluation reserve except to the extent that it reverses a revaluation deficit that was previously recognised in the profit and loss account. Revaluation deficits are taken to the profit and loss account as exceptional items in the absence of or to the extent that they exceed any surpluses held in reserve relating to previous revaluations.

Under FRS 40, changes in fair values of investment properties are required to be included in the profit and loss account in the year in which they arise. On transition to FRS 40 on 1 January 2007, the amount accumulated in the asset revaluation reserve at 31 December 2006 of \$46,300,000 will be adjusted against the opening accumulated profits as at 1 January 2007.

**(c) 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 K-REIT Asia's accounting policies, reported amounts of assets, liabilities, income 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.

**(d) Functional and foreign currency**

**(i) Functional currency**

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

**(ii) Foreign currency transactions**

Transactions in foreign currencies are measured in the functional currency of K-REIT Asia 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.

**(e) Investment properties**

Investment properties are stated at annual valuation performed by independent professional valuers on an open market value for existing use basis. Revaluation surpluses arising on annual valuations of investment properties are credited directly to asset revaluation reserve. Revaluation deficits are taken to the profit and loss account as exceptional items in the absence of or to the extent that they exceed any surpluses held in reserve relating to previous revaluations.

Revaluation surpluses are taken to the profit and loss account as exceptional items to the extent that they reverse any revaluation deficits previously recognised as expenses. Profits or losses on disposal of all investment properties are included in the profit and loss account. Any surpluses held in asset revaluation reserve in respect of previous revaluations of investment properties disposed of during the year are regarded as having become realised and are transferred to the profit and loss account.

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

#### (f) Impairment of non-financial assets

The carrying amounts of K-REIT Asia'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.

#### (g) Financial assets

Financial assets include cash and cash equivalents and trade and other receivables. Financial assets are recognised on the balance sheet when, and only when, K-REIT Asia 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 K-REIT Asia 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.

#### (h) Financial liabilities

Financial liabilities include trade payables, which are normally settled on 30-90 day terms, other amounts payable, payables to related parties and interest-bearing borrowings. Financial liabilities are recognised on the balance sheet when, and only when, K-REIT Asia 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.

**(i) Impairment of financial assets**

K-REIT Asia 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.

**(j) 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.

**(k) Units issued**

Units issued by K-REIT Asia are recorded at the proceeds received, net of direct issue costs.

**(l) Provisions**

Provisions are recognised when K-REIT Asia has a present obligation as a result of a past event, and it is probable that K-REIT Asia 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.

**(m) Leases - as lessor**

Leases where K-REIT Asia 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.

**(n) Revenue recognition**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to K-REIT Asia 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.

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

#### (n) Revenue recognition (cont'd)

##### (ii) Interest income

Interest income is recognised on accrual basis using the effective interest method, unless collectibility is in doubt.

#### (o) Expenses

##### (i) Establishment and issue expenses

Establishment expenses represent expenses incurred in establishing K-REIT Asia. Issue expenses represent expenses incurred in the listing of K-REIT Asia on the SGX-ST. All such expenses are charged 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 Manager's fee 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.

#### (p) Taxation

Taxation on the profit for the period 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 period, 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, K-REIT Asia re-assesses unrecognised deferred tax assets and the carrying amount of deferred tax assets. K-REIT Asia 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. K-REIT Asia 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 Inland Revenue Authority of Singapore ("IRAS"), K-REIT Asia is not taxed on its taxable income. K-REIT Asia's distribution policy is to distribute 100.0% of its taxable income for financial period ended 31 December 2006, at least 95.0% of its taxable income for financial year ended to 31 December 2007 and thereafter, to distribute at least 90.0% of its taxable income to Unitholders. Any portion of the taxable income that is not distributed to Unitholders will be assessed directly at the trust level at the prevailing corporate tax rate. In the event that there are subsequent adjustments to the taxable income when the actual taxable income of K-REIT Asia 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 K-REIT Asia 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 K-REIT Asia (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 K-REIT Asia'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 K-REIT Asia; and
- An agent bank who acted as nominee for individuals who have purchased Units in K-REIT Asia under the Central Provident Fund 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 which are considered as trading gains are assessable to tax on K-REIT Asia. Where the gains are capital gains, K-REIT Asia will not be assessed to tax and may distribute the capital gains without tax being deducted at source.

## Notes to the financial statements

### 3. Investment properties

**31/12/2006**  
**\$'000**

At 28 November 2005 (date of constitution)	-
Acquisition of investment properties	630,700
Net appreciation on revaluation credited directly to asset revaluation reserve	46,300
At 31 December 2006	<u>677,000</u>

The investment properties have been mortgaged as security for credit facilities granted to K-REIT Asia (Note 7).

### 4. Trade and other receivables

**31/12/2006**  
**\$'000**

Trade receivables	377
Amounts owing by related parties (trade)	37
Deposits	191
Prepayments	373
Interest receivable	16
Other receivables	51
	<u>1,045</u>

Amounts due from related parties are 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 K-REIT Asia (Note 7).

### 5. Cash and cash equivalents

**31/12/2006**  
**\$'000**

Cash at banks and in hand	307
Fixed deposits with a financial institution	16,507
	<u>16,814</u>

Cash at banks earn interest at floating rates based on daily bank deposit rates ranging from 1.575% to 2.625% per annum. Short-term deposits are made for varying periods of between four days to two months depending on the immediate cash requirements of K-REIT Asia, and earn interests at the respective short-term deposit rates. The interest rates of short-term deposits range from 2.70% to 3.15% per annum.

The cash and cash equivalents are charged or assigned by way of security for credit facilities granted to K-REIT Asia (Note 7).

## 6. Trade and other payables

	<b>31/12/2006</b>
	<b>\$'000</b>
Trade payables	363
Accrued operating expenses	2,650
Amounts due to related parties (trade)	1,146
Income received in advance	282
Other deposits	56
Interest payable	307
	<hr/> 4,804

Included in accrued operating expenses is an amount due to the Trustee of \$24,000.

Included in the amounts due to related parties is an amount due to the Manager of \$981,000 and an amount due to the Property Manager of \$148,000.

## 7. Interest-bearing liabilities (secured)

	<b>31/12/2006</b>
	<b>\$'000</b>
Term loans (secured)	189,042
	<hr/>
<b>Maturity of loan</b>	
After 1 year but within 5 years	189,042
	<hr/>

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 K-REIT Asia a five-year fixed rate term loan facility totalling S\$190.1 million, 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% 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 K-REIT Asia relating to the Properties.

Blossom Assets has established a S\$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 S\$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.

### 7. Interest-bearing liabilities (secured) (cont'd)

To fund the loan of S\$190.1 million 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 an interest margin of between 0.20% to 0.35% per annum above EURIBOR, repriced every 3 months, for the period 17 May 2006 to 17 May 2011.

K-REIT Asia also has a short-term credit facility of S\$26 million from Deutsche Bank AG, Singapore Branch ("the Bank") which is subordinated to the term loan facility, and has a security sharing arrangement entered into between the Bank and Blossom Assets in respect of the security granted by the Trustee on the mortgaged properties. As at 31 December 2006, there was no drawdown of the short-term credit facility.

The weighted average all-in funding cost including margin charged on the loans and amortised upfront costs as at 31 December 2006 is 4.03% per annum.

### 8. Units in issue

**31/12/2006**  
**\$'000**

At 28 November 2005 (date of constitution)	-
Issue of Units:	
- as part settlement for the purchase of investment properties	240,508
- payment of management fees in Units	1,102
At 31 December 2006	241,610

On 26 April 2006, K-REIT Asia issued 240,508,000 new Units at the issue price of \$1.83 per unit as partial consideration for the acquisition of its initial properties, namely, Prudential Tower Property (approximately 44.4% interest of the strata area of Prudential Tower), Keppel Towers and GE Tower, and Bugis Junction Towers.

During the financial period ended 31 December 2006, K-REIT Asia issued 1,102,366 new Units comprising 516,401 Units at an issue price of \$1.3563 per unit and 585,965 Units at an issue price of \$1.6770 per unit as payment of management fees.

Each Unit in K-REIT Asia represents undivided interest in K-REIT Asia. 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 K-REIT Asia by receiving a share of all net cash proceeds derived from the realisation of the assets of K-REIT Asia less liabilities, in accordance with their proportionate interests in K-REIT Asia. However, a Unitholder has no equitable or proprietary interest in the underlying assets of K-REIT Asia 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 K-REIT Asia; 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 K-REIT Asia 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 K-REIT Asia in the event that the liabilities of K-REIT Asia exceed its assets, if the Issue Price of the Units held by that Unitholder has been fully paid.

#### 9. Gross revenue

	<b>28/11/2005 to 31/12/2006 \$'000</b>
Gross rental income	23,213
Car park income	610
Others	38
	<hr/> 23,861

#### 10. Property expenses

	<b>28/11/2005 to 31/12/2006 \$'000</b>
Property tax	1,706
Property management fee	716
Property management reimbursements	711
Marketing expenses	78
Maintenance	3,758
Other property expenses	78
	<hr/> 7,047

#### 11. Manager's management fees

All the Manager's management fees are paid in Units during the financial period.

#### 12. Trust expenses

	<b>28/11/2005 to 31/12/2006 \$'000</b>
Trustee's fees	65
Auditors' remuneration	50
Professional fees	99
Other trust expenses	558
	<hr/> 772

## Notes to the financial statements

### 13. Borrowing costs

**28/11/2005  
to 31/12/2006  
\$'000**

Interest expense	
- on term loans	4,685
- on bridge loan from a related company of the Manager	401
Amortisation of transaction costs capitalised	160
	<hr/> 5,246

### 14. Income tax expense

**28/11/2005  
to 31/12/2006  
\$'000**

*Reconciliation of effective tax rate:*

Net profit before tax	8,367
	<hr/>
Income tax using Singapore tax rate of 20%	1,673
Non-tax deductible items	562
Tax transparency	(2,235)
	<hr/> -

### 15. Earnings per unit

The basic earnings per unit is calculated by dividing the net profit after tax and the weighted average number of units during the financial period.

**28/11/2005  
to 31/12/2006  
\$'000**

Net profit after tax	8,367
Weighted average number of units in issue during the financial period	240,972
Basic earnings per unit	3.47 cents

Diluted earnings per unit is the same as the basic earnings per unit as there are no dilutive instruments in issue during the financial period.

### 16. Establishment and issue expenses

Establishment and issue expenses comprise professional, advisory and other fees, listing and perusal fees and other miscellaneous expenses incurred for the establishment of K-REIT Asia.

These expenses are deducted directly against the Unitholders' funds. Included in the issue expenses are fees paid to auditors of K-REIT Asia amounting to \$255,000 for acting as independent reporting accountants.

## 17. Significant related party transactions

For the purposes of these financial statements, parties are considered to be related to K-REIT Asia if K-REIT Asia 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 K-REIT Asia 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 K-REIT Asia.

In the normal course of the operations of K-REIT Asia, 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 period, 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:

	<b>28/11/2005 to 31/12/2006 \$'000</b>
Manager's management fees paid/ payable to the Manager	2,665
Trustee fees paid/ payable to the Trustee	65
Property management fees and reimbursables paid/ payable to a related company of the Manager	1,427
Leasing commissions paid/ payable to a related company of the Manager	333
Rental income and other related income from related companies of the Manager	1,453
Acquisition of properties from related companies of the Manager	630,700
Interest on bridge loan paid to a related company of the Manager	401

## 18. Financial risk management objectives and policies

K-REIT Asia is exposed to credit, interest rate and liquidity risks in the normal course of the Trust's business. Assessment of financial risks is carried out regularly by the Manager. K-REIT Asia 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.

### 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 K-REIT Asia as and when they fall due.

The Manager has established credit limits for customers and monitors their balances on an ongoing basis. Credit evaluations are performed by the Manager before lease agreements are entered into with customers. Cash and fixed deposits are placed with financial institutions which are regulated.

At 31 December 2006, there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying value of each financial asset on the balance sheet.

### 18. Financial risk management objectives and policies (cont'd)

#### Interest rate risk

K-REIT Asia's exposure to changes in interest rates relates primarily to interest-earning financial assets and interest-bearing financial liabilities. Interest rate risk is managed by the Manager on an on-going basis with the primary objective of limiting the extent to which net interest exposure could be affected by adverse movements in interest rates. The details of the interest rates relating to the interest-earning financial assets and interest-bearing financial liabilities are disclosed in Note 5 and 7 respectively.

#### Liquidity risk

The Manager monitors and maintains a level of cash and cash equivalents deemed adequate to finance K-REIT Asia's operations. In addition, the Manager also monitors and observes the CIS Code issued by MAS concerning limits on total borrowings.

### 19. 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, and trade and other payables reasonably approximate their fair values because these are mostly short-term in nature.

#### Financial instruments carried at other than fair value

Set out below is a comparison of carrying amounts and fair values of K-REIT Asia's financial instrument that are carried in the financial statements at other than fair values as at 31 December 2006:

	<b>Carrying value</b>	<b>Fair value</b>
	<b>\$'000</b>	<b>\$'000</b>
<u>Financial liabilities</u>		
Interest-bearing liabilities (secured)	189,042	190,993

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.

### 20. Segment reporting

K-REIT Asia'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.

## 21. Commitments

K-REIT Asia leases out its investment properties. Non-cancellable operating lease rentals are receivable as follows:

	<b>28/11/2005 to 31/12/2006 \$'000</b>
Within 1 year	26,355
After 1 year but within 5 years	45,524
	<hr/> 71,879

## 22. Financial ratios

	<b>28/11/2005 to 31/12/2006 %</b>
Expenses to weighted average net assets <sup>1</sup>	
- including performance component of Manager's management fees	1.12
- excluding performance component of Manager's management fees	0.96
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 expenses of K-REIT Asia at the Trust level, excluding property expenses and borrowing costs.

<sup>2</sup> The annualised ratio is computed based on the lesser of purchases or sales of underlying investment properties of K-REIT Asia expressed as a percentage of weighted average net asset value.

## 23. Subsequent event

Subsequent to the financial period ended 31 December 2006, the Manager declared a distribution of \$8,384,000 for the period from 1 July 2006 to 31 December 2006.

On 1 February 2007, K-REIT Asia issued 387,271 new Units at an issue price of \$2.5339 per unit as payment of management fees for the financial period ended 31 December 2006.

## 24. Comparative information

No comparative figures are provided as this is the first set of financial statements for K-REIT Asia since the date of its establishment.

# Additional information

## Interested person transactions

The transactions entered into with interested persons during the financial period which fall under the Listing Manual of the SGX-ST and the CIS code are as follows:

<b>Name of interested person</b>	<b>Aggregate value of all interested person transactions during the financial period under review (excluding transactions of less than \$100,000)</b>
	<b>\$'000</b>
Keppel Corporation and its subsidiaries or associates	
- Manager's management fees	2,665
- Property management fees and reimbursables	1,427
- Leasing commissions	333
- Rental and service charge income <sup>1</sup>	12,598
- Acquisition of properties	630,700
- Interest on bridge loan	401
RBC Dexia Trust Services Singapore Limited	
- Trustee's fees	65

<sup>1</sup> The aggregate value of interested person transactions refers to the total contract sum entered into during the financial period.

Save as disclosed above, there were no additional interested person transactions (excluding transactions of less than \$100,000) entered into during the financial period 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 17 in the financial statements.

## Subscription of K-REIT Asia Units

For the financial period ended 31 December 2006, an aggregate of 241,610,366 Units were issued. On 26 April 2006, K-REIT Asia issued 240,508,000 new Units as partial consideration for the acquisition of its initial properties. During the financial period ended 31 December 2006, K-REIT Asia issued 1,102,366 new Units as payment of management fees.



