

CORPORATE GOVERNANCE STATEMENT

Year Ended 31 December 2012

The Board of Directors of the Company (the “Board”) is committed to raising the standard of corporate governance within the Group in order to enhance the transparency in disclosure of material information. The Board strives to implement the best practices embodied in the Code of Corporate Governance 2005 (the “Code”) where feasible and as far as practicable.

BOARD MATTERS

The Board’s Conduct of its Affairs (Principle 1 of the Code)

During the financial year ended 31 December 2012 (“FY2012”), the Board consisted of seven members who have appropriate corporate experience.

The Board held meetings on a regular basis during FY2012 to review the Company’s and the Group’s operations and financial results. Details of attendance of the directors of the Company (the “Directors”) at the Board meetings and Audit Committee meetings are set out on page 14.

Guidelines are established to specify which material transactions require the Board’s approval. These transactions include mergers and acquisitions, divestments and major capital expenditure.

Board Composition and Balance (Principle 2 of the Code)

During FY2012, of the seven Directors, three were non-executive. Mr Jackson Lee, Mr Tan Tock Han and Mr Lai Meng Seng, the three non-executive Directors were deemed to be independent in light of the provisions of the Code. This is in compliance with the Code which recommends that independent directors make up at least one-third of the board of directors. The Board was of the view that the size of the Board was appropriate for the needs and demands of the Company’s and the Group’s operations.

During FY2012, the non-executive Directors constructively challenged and helped the management develop proposals on business strategies for the Company and the Group. The Board also reviews the performance of the management in achieving agreed goals and objectives for the Company and the Group, and monitors the reporting of performance.

With effect from 1 April 2013, Mr Chow Yew Hon was appointed as an independent director of the Company. In light of the provisions of the Code of Corporate Governance 2012, the Board considered Mr Chow Yew Hon to be independent.

With effect from 1 April 2013, Mr Jackson Lee was appointed as the lead independent director of the Company.

Chairman and Chief Executive Officer (Principle 3 of the Code)

Mr Cheong Kim Pong is both the Chairman of the Board, as well as the Group’s Chief Executive Officer (“CEO”)/Managing Director. Given the size and that the Company’s and the Group’s current business operations and administration have been relatively stable and straightforward, the Board is satisfied that one person is able to effectively discharge the duties of both positions. Additionally, the Board has at least one-third majority of independent Directors, which complies with the recommendation from the Code. This helps to maintain a certain balance of power within the Board.

Board Membership (Principle 4 of the Code)

During FY2012, the Board did not have a nominating committee as the Board had been relatively stable with a low turnover in the past few years. If the need arises, the Board as a whole, will decide on the nomination and appointment of new directors. Details of the Directors’ qualifications, directorships and other particulars are set out on page 15.

With effect from 1 April 2013, a nominating committee of the Company (the “Nominating Committee”) was established and the members of the Nominating Committee are Mr Chow Yew Hon (Chairman of the Nominating Committee), Mr Jackson Lee and Mr Tan Tock Han.

Board Performance (Principle 5 of the Code)

The Board supervises the management of the business and affairs of the Company and the Group. Apart from its statutory duties, the Board reviews and approves the Company’s and the Group’s strategic plans, key operational initiatives, major investments and funding decisions, annual business plans, and reviews the financial performance of the Company and the Group. For FY2012, the Board also evaluated the performance and compensation of senior management personnel.

During FY2012, the Board did not have a remuneration committee and the Board conducted an informal assessment of the individual Director’s contribution. No Director decides his or her own remuneration. The Group’s remuneration policy is to provide compensation packages which will reward, retain and motivate its executives and Directors.

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With effect from 1 April 2013, a remuneration committee of the Company (the “Remuneration Committee”) was established, and the members of the Remuneration Committee are Mr Chow Yew Hon (Chairman of the Remuneration Committee), Mr Jackson Lee and Mr Tan Tock Han.

Access to Information (Principle 6 of the Code)

The Board has separate and independent access to management and the Company Secretary. The Company Secretary attends Board meetings and ensures that board procedures, applicable rules and regulations are complied with. Management provides the Board with reports of the Company’s and the Group’s performance, financial position and prospects, and these are reviewed by the Board at each Board meeting. Directors may obtain independent professional advice in furtherance of their duties, at the Company’s and the Group’s expense.

REMUNERATION MATTERS (Principles 7, 8 and 9 of the Code)

Summary of Directors’ remunerations for FY2012:

Remuneration Band Name of Director	Salary %	Fees %	Bonus %	Other Benefits %	Total %
Less than \$250,000					
Mr Jackson Lee	–	100	–	–	100
Mr Tan Tock Han	–	100	–	–	100
Mr Lai Meng Seng	–	100	–	–	100
\$250,000 to \$1,749,999					
–	–	–	–	–	–
\$1,750,000 to \$1,999,999					
Ms Cheong Hooi Kheng	52	–	46	2	100
\$2,000,000 to \$2,249,999					
Mr Cheong Pin Chuan	48	–	52	–	100
\$2,250,000 to \$2,749,999					
–	–	–	–	–	–
\$2,750,000 to \$2,999,999					
Mr Cheong Sim Eng	58	–	38	4	100
Mr Cheong Kim Pong	57	–	39	4	100

Summary of key executives’ remunerations for FY2012:

Remuneration Band Designation of Executive	Salary %	Fees %	Bonus %	Other Benefits %	Total %
\$250,000 to \$499,999					
Vice President (Projects)	72	–	27	1	100
Personal Assistant to Directors	64	–	17	19	100
Vice President (Accounts and Finance)/ Company Secretary	65	–	35	–	100
Vice President (Marketing)	66	–	25	9	100
\$500,000 to \$749,999					
Vice President (Property Maintenance)*	46	–	–	54	100
Vice President (Administration and Personnel)/(Property Maintenance)**	77	–	13	10	100

* The Vice President (Property Maintenance) left the employment of the Group on 31 July 2012.

** The Vice President (Administration and Personnel)/(Property Maintenance) is formerly the Vice President (Administration and Personnel), and has assumed the position of Vice President of both Administration and Personnel and Property Maintenance with effect from 3 August 2012.



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Remuneration Packages of Employees who are related to the Directors, or CEO of the Company

For FY2012, the Personal Assistant to Directors, the Vice President (Administration and Personnel)/(Property Maintenance) and the Vice President (Property Maintenance) were the employees of the Group whose remuneration exceeded \$150,000 each during the financial year who are related to Mr Cheong Kim Pong, Mr Cheong Pin Chuan, Ms Cheong Hooi Kheng and Mr Cheong Sim Eng, who are Directors.

Information of the key executive officers is set out on page 5.

The Company does not have any employee share option scheme.

ACCOUNTABILITY AND AUDIT (Principles 10, 11, 12 and 13 of the Code)

Audit Committee

During FY2012, the Audit Committee comprised three independent non-executive Directors, namely, Mr Jackson Lee, Mr Tan Tock Han and Mr Lai Meng Seng, who have accounting or related financial management experience.

The Audit Committee had full access to and co-operation of the management. The Audit Committee also had discretion to invite any Director or executive officer to attend its meetings and was assured of adequate resources to enable it to discharge its function properly. KPMG LLP (an accounting firm registered with the Accounting and Corporate Regulatory Authority of Singapore), the Company's external auditors had unrestricted access to the Audit Committee.

The Audit Committee was satisfied that the Company's external auditors and the audit engagement partner assigned to the audit had adequate resources and experience to meet its audit obligations. In this connection, the Company has complied with Rule 712 of the Listing Manual of the SGX-ST.

During FY2012, the Audit Committee met periodically with management and auditors of the Company to discuss and review:

- (a) the annual and quarterly financial statements and announcements to shareholders of the Company (the "Shareholders") before submission to the Board for adoption;
- (b) the Company's and the Group's accounting policies and system of internal controls;
- (c) the audit plan of the Company's external and internal auditors;
- (d) the results of the Company's external and internal auditors' examination and their evaluation of the Company's and the Group's internal control system;
- (e) the independence and objectivity of the Company's external auditors;
- (f) the assistance given by the Company's and the Group's officers to the Company's external and internal auditors;
- (g) interested party transactions; and
- (h) recommendation to the Board regarding the appointment or re-appointment of external auditors of the Company at the Annual General Meeting.

To enable the Audit Committee to discharge its functions more effectively, the Company outsourced its internal audit function to a reputable international accounting firm which is not the external auditor. The internal audit function reported to the Audit Committee. The Audit Committee reviewed and approved the internal audit plan for execution.

The Board acknowledges that it is responsible for the overall internal control framework, but recognises that no cost effective internal control system will preclude all errors and irregularities, as the system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can provide only reasonable and not absolute assurance against material misstatement or loss. The Directors regularly review the effectiveness of all internal controls, including operational controls.

The Board recognises the importance of maintaining a sound system of internal controls to safeguard the Shareholders' investments and assets of the Company and the Group. The Audit Committee has been assigned to oversee and review the effectiveness of these controls at least annually.

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In FY2012, the Group with the assistance of its internal auditors carried out an exercise to review the Group's risk register which identified the key risks facing the Group and the internal controls in place to manage or mitigate those risks. Internal and external auditors conducted audits that involve testing the effectiveness of the material internal control systems in the Group. Any material non-compliance or lapses in internal controls together with corrective measures recommended by internal and external auditors were reported to the Audit Committee. The Audit Committee also reviewed the effectiveness of the measures taken by management in response to the recommendations made by the internal and external auditors. The system of internal control and risk management is continually being refined by management, the Audit Committee and the Board.

The Audit Committee reviewed the volume of non-audit services to the Company and the Group by the Company's external auditors and was satisfied that the nature and extent of such services would not prejudice the independence and objectivity of the external auditors. Hence, the Audit Committee has recommended to the Board that the auditors, KPMG LLP, be nominated for re-appointment as the Company's external auditors at the forthcoming Annual General Meeting of the Company.

The Board and the Audit Committee reviewed the appointment of different auditors for its subsidiaries and significant associates and were satisfied that the appointment of different auditors would not compromise the standard and effectiveness of the audit of the Group. Accordingly, the Company has complied with Rule 716 of the Listing Manual of the SGX-ST.

The audit and non-audit fees paid/payable to auditors are stated in Note 21 (Profit/(Loss) Before Income Tax) to the Financial Statements.

Based on the work carried out by the internal auditors, the external auditors and the existing management controls in place, the Audit Committee and the Board were satisfied that there were adequate internal controls in place to mitigate critical and significant risks relating to financial, operational and compliance matters. The Board, together with the Audit Committee and management, will continue to enhance and improve the existing internal control framework to identify and mitigate these risks.

With effect from 1 April 2013, the Audit Committee was renamed as the audit and risk management committee (the "Audit and Risk Management Committee"), and its duties were revised to include, inter alia, the overseeing of the Company's risk management framework and policies. Mr Chow Yew Hon, an independent Director of the Company, was appointed as a member of the Audit and Risk Management Committee. The members of the Audit and Risk Management Committee are Mr Jackson Lee (Chairman of the Audit and Risk Management Committee), Mr Tan Tock Han, Mr Lai Meng Seng and Mr Chow Yew Hon.

COMMUNICATION WITH SHAREHOLDERS (Principles 14 and 15 of the Code)

The Company ensures that timely and adequate disclosure of information on matters of material impact on the Company and the Group are made to the Shareholders. Any such information, should they arise, are communicated to the Shareholders through the Company's annual reports and announcements to the SGX-ST. The Board and management are present at the Annual General Meetings to address any questions that the Shareholders may have. The external auditors of the Company are also present to assist the Board in addressing relevant queries by the Shareholders. Shareholders have the opportunity to vote in person or by proxy.

INTERESTED PERSON TRANSACTIONS

During FY2012, there were no interested person transactions (excluding transactions less than \$100,000) entered into by the Group. The Company does not have a shareholders' mandate for interested person transactions pursuant to Rule 920 of the Listing Manual of the SGX-ST.

MATERIAL CONTRACTS

Save for the interested person transactions disclosed above and in Note 27 (Related Party Transactions) to the Financial Statements, there were no other material contracts of the Company or its subsidiaries involving the interests of the chief executive officer, each Director or controlling Shareholder, either still subsisting at the end of the financial year or if not then subsisting, entered into since the end of the previous financial year.

SECURITIES TRANSACTIONS

The Company has adopted the Hong Fok Corporation Limited Best Practices Guide (Dealings in Company's Securities) (the "Guide"). The Guide sets out, inter alia, the restrictions on insider trading under the Securities and Futures Act, Chapter 289, the implications of insider trading as well as guidelines on dealings in securities. In addition, the Guide further elaborates that an officer of the Company should not deal in the securities of the Company on short-term considerations and the Company and its officers should not deal in the securities of the Company during the period commencing two weeks before the announcement of the Company's financial statements for each of the first three quarters of its financial year, or one month before its half year or financial year, as the case may be, and ending on the date of announcement of the relevant results.

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CORPORATE SOCIAL RESPONSIBILITY

The Company is aware of the effects of its operations and the role it plays in preserving the environment. The Company intends to encourage a more environmentally responsible culture, including implementing policies for paper recycling, reducing the unnecessary use of paper and reducing electricity consumption.

DIRECTORS' ATTENDANCE AT BOARD AND AUDIT COMMITTEE MEETINGS

	Board		Audit Committee	
	No. of Meetings ⁽¹⁾	Attendance	No. of Meetings ⁽¹⁾	Attendance
Executive Directors				
Mr Cheong Kim Pong	7	7	N.A.	N.A.
Mr Cheong Pin Chuan ⁽²⁾	7	3	N.A.	N.A.
Ms Cheong Hooi Kheng	7	7	N.A.	N.A.
Mr Cheong Sim Eng	7	7	N.A.	N.A.
Non-Executive Directors				
Mr Jackson Lee	7	6	5	5
Mr Tan Tock Han	7	4	5	4
Mr Lai Meng Seng	7	6	5	5

(1) In addition to these meetings, operational matters that require the Board's or Audit Committee's attention are also dealt with via circular resolutions.

(2) Mr Cheong Pin Chuan, who is working in Hong Kong, is either consulted on proposed resolutions and other matters to be discussed at meetings or participates in meetings via teleconference.

N.A.: Not applicable

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INFORMATION OF THE DIRECTORS

Name of Director	Age	Academic and Professional Qualifications	Board Committees Served on as Chairman or Member	Directorship: Date First Appointed	Directorship: Date Last Re-elected
Mr Cheong Kim Pong	70	Attended Civil Engineering at The Technical College in Australia	Chairman of the Board	13 January 1968	28 April 2011
Mr Cheong Pin Chuan	63	Graduate of the Footscray Institute of Technology in Australia. Member of the Australian Society of Certified Practising Accountants and the Hong Kong Institute of Certified Public Accountants	–	26 July 1971	26 April 2012
Ms Cheong Hooi Kheng ⁽¹⁾	60	Bachelor of Science Master of Business Administration	–	1 March 1989	28 April 2010
Mr Cheong Sim Eng	52	Bachelor of Arts	–	14 May 1990	28 April 2010
Mr Jackson Lee	80	Fellow of the Institute of Chartered Accountants in Australia	Chairman of Audit and Risk Management Committee and member of Nominating Committee and Remuneration Committee ⁽⁴⁾	1 April 1976	26 April 2012
Mr Tan Tock Han ⁽¹⁾	66	–	Member of Audit and Risk Management Committee, Nominating Committee and Remuneration Committee ⁽⁴⁾	18 October 2001	26 April 2012
Mr Lai Meng Seng ⁽²⁾	64	Advanced Diploma in Quantity Surveying from the Royal Melbourne Institute of Technology Australia	Member of Audit and Risk Management Committee ⁽⁴⁾	21 May 2007	28 April 2011
Mr Chow Yew Hon ⁽³⁾	62	Bachelor of Business Administration (Honours) Completed the Pacific Rim Bankers' Programme in the United States of America	Member of Audit and Risk Management Committee and Chairman of Nominating Committee and Remuneration Committee ⁽⁴⁾	1 April 2013	N.A.

- (1) Ms Cheong Hooi Kheng and Mr Tan Tock Han are also directors of KTL Global Limited.
- (2) Mr Lai Meng Seng is also a director of KSH Holdings Limited.
- (3) Mr Chow Yew Hon was appointed as an independent Director of the Company with effect from 1 April 2013.
- (4) With effect from 1 April 2013, the Nominating Committee and the Remuneration Committee were established, the Audit Committee was renamed as the Audit and Risk Management Committee and Mr Chow Yew Hon was appointed as a member of the Audit and Risk Management Committee.

N.A. Not Applicable

