

# Corporate Governance Statement

Year Ended 31 December 2016

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The board of directors of the Company (the “Board” or “Directors”) is committed to raising the standard of corporate governance within the Group in order to enhance transparency in the disclosure of material information. The Company confirms that it has adhered to the principles and guidelines of the Code of Corporate Governance 2012 (the “Code” or “2012 Code”) and if there is any deviation from the Code, appropriate explanations are provided in this Statement on each area of non-compliance.

## BOARD MATTERS

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

The Board is collectively responsible for the long-term success of the Company. The Board works with management to achieve this objective and management remains accountable to the Board.

In accordance with the Code, the Board has, without abdicating its responsibility, delegated the authority to make decisions to the Audit and Risk Management Committee, the Nominating Committee and the Remuneration Committee (collectively referred to as the “Board Committees”). Each Board Committee has its own terms of references to address their respective duties and responsibilities.

The Board held meetings on a regular basis during FY2016 to review, *inter alia*, the Company’s and the Group’s operations and financial results. Details of attendance of Directors at the Board meetings, Audit and Risk Management Committee meetings, Nominating Committee meetings, and Remuneration Committee meetings are set out on page 20. The Company’s Constitution permits Directors to attend meetings through the use of audio-visual communication equipment.

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

Newly appointed Directors will receive appropriate training and orientation programmes to familiarise themselves with the operations of the Group and its major business processes.

On the appointment of a new Director, the Company will provide a formal letter to the Director, setting out the Director’s duties and obligations.

The Company also funds and arranges for the Directors to receive regular training. In this connection, the Company’s external auditors, KPMG LLP, conducted a briefing session for the Board during FY2016 on the latest changes to the financial reporting standards. Various Directors attended seminars and courses organized by the Singapore Institute of Directors and other professional organisations, including the Corporate Governance Roundup 2016, Launch of the Board Guide, Singapore Directorship Report 2016, The State of Corporate Governance Disclosures in Singapore, Singapore Governance & Transparency Forum, Launch of Remuneration Committee Guide and Remuneration Committee Chairmen Conversation/Forum (2016).

The Board has no dissenting views on the Chairmen’s Statement for the year in review.

### Board Composition and Guidance (Principle 2 of the Code)

During FY2016, out of the six Directors, three were non-executive and independent. The independence of each independent Director is reviewed annually by the Nominating Committee based on the provisions relating to independence as set out in the Code. The Nominating Committee requires each independent Director to complete and execute a form declaring and affirming his independence and confirming that there exist no conditions that would impair his independence. This declaration of independence is tabled before the Nominating Committee and, if accepted, the Director’s independence is then recommended by the Nominating Committee to the Board.

Taking into account the views of the Nominating Committee, the Board is satisfied that Mr Chow Yew Hon, Mr Lim Jun Xiong Steven and Mr Chan Pengee, Adrian are 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 half the Board where the Chairman and the Chief Executive Officer (“CEO”) (or equivalent, in our case, the Managing Director) is the same person, notwithstanding that this recommendation only comes into effect following the end of the financial year commencing on or after 1 May 2016.

The Code further requires the independence of any Director who has served on the Board beyond nine (9) years to be rigorously reviewed. None of the current independent Directors has served on the Board for more than nine (9) years since the date of their appointment.

The Board is of the view that the size of the Board is appropriate for the needs and demands of the Company’s and the Group’s operations. The Board comprises business leaders and professionals from different industries and financial backgrounds. The current Board comprises Directors who have diverse qualifications and backgrounds in areas such as law, banking, trusts, finance and business, and includes Directors who are resident in Singapore and Hong Kong. The independent Directors have exposure to the business industry in which the Group operates. The Board’s composition enables the management to benefit from a diverse and objective external perspective on issues raised before the Board.

# Corporate Governance Statement

Year Ended 31 December 2016

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The Company has recently adopted a Board Diversity Policy to set out its approach to achieve diversity on the Board. The details of the Board Diversity Policy are available on the Company's website.

During FY2016, 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.

During FY2016, the non-executive independent Directors had meetings without the presence of the management.

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

Mr Cheong Pin Chuan and Mr Cheong Sim Eng were the Joint Chairmen of the Board and Joint Managing Directors of the Company.

The Code recommends that a lead independent director be appointed where the Chairman and the CEO (or equivalent) is the same person. Mr Chow Yew Hon had been appointed as the lead independent Director since 1 September 2014.

The Joint Chairmen bring with them a wealth of experience and lead the Board to ensure its effectiveness on all aspects of their role. Prior to each Board meeting, the Joint Chairmen determine the agenda for the meeting and instruct the Company Secretary to disseminate it to all Directors. They lead the meeting and ensure full discussion of each agenda item, as appropriate. The Joint Chairmen ensure that Board members engage the management in constructive debate on various matters including strategic issues. They also oversee the quality and timeliness of information flow between the management and the Board.

## **Board Membership (Principle 4 of the Code)**

Key information on the Directors, such as whether they are executive, non-executive, or considered by the Nominating Committee to be independent, as well as details of their academic and professional qualifications and other particulars are set out on pages 3 and 21.

The members of the nominating committee of the Company (the "Nominating Committee") were Mr Chan Pengee, Adrian (Chairman of the Nominating Committee), Mr Lim Jun Xiong Steven and Mr Chow Yew Hon.

According to the Nominating Committee's terms of reference, the Nominating Committee's duties and responsibilities are as follows:

- (a) determining annually, and as and when circumstances require, whether a Director is independent, and providing its views to the Board in relation thereto for the Board's consideration;
- (b) reviewing the independence of any Director who has served on the Board for more than nine (9) years from the date of his first appointment and the reasons for considering him as independent;
- (c) where a Director or proposed Director has multiple board representations, deciding whether the Director is able to and has been adequately carrying out his duties as a Director, taking into consideration the Director's number of listed company board representations and other principal commitments<sup>1</sup>;
- (d) where the appointment of an alternate Director to a Director is proposed, determining whether the alternate Director is familiar with the Company's affairs, appropriately qualified and (in the case of an alternate Director to an independent Director) whether the alternate Director would similarly qualify as an independent Director, and providing its views to the Board in relation thereto for the Board's consideration;
- (e) making recommendations to the Board on relevant matters relating to:
  - (i) the review of board succession plans for Directors, in particular, the Chairman and for the CEO;
  - (ii) the development of a process for evaluation of the performance of the Board, its Board Committees and Directors;

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<sup>1</sup> The term "*principal commitments*" shall include all commitments which involve significant time commitment such as full time occupation, consultancy work, committee work, non-listed company board representations and directorships and involvement in non-profit organisation. Where a Director sits on the boards of non-active related corporations, those appointments should not normally be considered principal commitments.

# Corporate Governance Statement

Year Ended 31 December 2016

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- (iii) the review of training and professional development programs for the Board; and
- (iv) the appointment and re-appointment of Directors (including alternate Directors, if applicable);
- (f) proposing objective performance criteria for evaluation of the Board's performance as a whole which allows for comparison with industry peers and address how the Board has enhanced long-term shareholder value;
- (g) carrying out, at least annually, a formal assessment of the performance and effectiveness of the Board as a whole and its Board Committees and (if applicable) the contributions of individual Directors to the effectiveness of the Board, based on the process implemented by the Board; and
- (h) based on the results of the performance evaluation, providing its views and recommendations to the Board, including any appointment of new members.

The Nominating Committee has recommended and the Board has adopted a policy that a Director should not have in aggregate more than six (6) listed company Board representations so as to be able to devote sufficient time and attention to the affairs of the Company. None of the Directors currently exceed this limit. In the view of the Nominating Committee, the Directors have demonstrated their commitment and effectiveness in discharging their duties and responsibilities and avoiding actual or potential conflicts of interest. The Nominating Committee, in assessing the performance of each individual Director, considers whether sufficient time and attention has been given by the Director to the affairs of the Company. It also has regard to the Director's other Board memberships and commitments. The Nominating Committee is satisfied that all Directors have discharged their duties adequately for FY2016.

All new appointments and selection of Directors are reviewed and proposed by the Nominating Committee. The Nominating Committee will first identify the knowledge, skills, experience and background of the candidate being considered for appointment to the Board. Suitable candidates for Board membership are then identified through, *inter alia*, recommendations from current Board members, searches conducted by external search consultants or the Singapore Institute of Directors and other referrals. The Nominating Committee and the Board will interview short-listed candidates before discussing and approving the final appointment. For existing Directors who retire and stand for re-election, based on the evaluation of these Directors, the Nominating Committee will make recommendations for the re-nomination of such Directors.

All Directors (including Managing Directors and executive Directors) are subject to retirement in accordance with the provisions of the Company's Constitution whereby one-third of the Directors (or if their number is not three or a multiple of three, the number nearest to but not less than one-third) are required to retire from office by rotation and subject themselves to re-election by shareholders at every annual general meeting of the Company.

After assessing the contribution and performance of the retiring Directors, the Nominating Committee has recommended the re-election of Mr Cheong Sim Eng and Ms Cheong Hooi Kheng, who will be retiring by rotation at the forthcoming annual general meeting under Article 104 of the Company's Constitution. Mr Cheong Sim Eng and Ms Cheong Hooi Kheng have offered themselves for re-election and the Board has accepted the recommendations of the Nominating Committee.

## **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 and those subsidiary companies or subsidiary corporations whose financial statements are consolidated with the Company's financial statements. The Board also evaluated the performance and compensation of key management personnel.

The Nominating Committee has implemented a process which requires each Director to submit an assessment of the Board and the Board Committees, and a peer assessment of each of the other Directors on the Board to assess the Director's contributions to the effectiveness of the Board. These detailed forms assess Directors in various different areas and competencies, including their attendance and contributions at meetings, preparedness for meetings and their interactive and interpersonal skills. The responses are collated by the external Company Secretary and a consolidated report is submitted to the Nominating Committee. The responses are then discussed by the Nominating Committee for the recommendations to be made to the Board.

As described below, the Remuneration Committee, in consultation with Korn Ferry Hay Group, recommended to the Board specific remuneration packages appropriate for each executive Director and the Directors' fees payable to the non-executive Directors. During this process, the Korn Ferry Hay Group and the Remuneration Committee assessed the contributions and performance of each Director in addition to considering other relevant factors.

# Corporate Governance Statement

Year Ended 31 December 2016

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## Access to Information (Principle 6 of the Code)

The Board has separate and independent access to management and the Company Secretary, and is free to request for additional information as needed to make informed decisions. Management provides the Board with reports of the performance, financial position and prospects of the Group and those subsidiary companies or subsidiary corporations whose financial statements are consolidated with the Company's financial statements, and these are reviewed by the Board at each Board meeting. Monthly management accounts of the Company and its key subsidiaries are also provided to the Directors. 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)

The members of the remuneration committee (the "Remuneration Committee") were Mr Chow Yew Hon (Chairman of the Remuneration Committee), Mr Lim Jun Xiong Steven and Mr Chan Pengee, Adrian.

According to the Remuneration Committee's terms of reference, the Remuneration Committee's principal functions are as follows:

- (a) reviewing and recommending to the Board, a general framework of remuneration for the Directors and key management personnel<sup>2</sup>;
- (b) reviewing and recommending annually to the Board, the specific remuneration packages for each Director as well as for the key management personnel, and in its review, to cover all aspects of remuneration, including but not limited to Directors' fees, salaries, allowances, bonuses, options, share-based incentives and awards and benefits-in-kind;
- (c) reviewing annually the remuneration of employees who are immediate family members<sup>3</sup> of a Director or CEO whose remuneration exceeds \$50,000 during the year;
- (d) reviewing the Company's obligations arising in the event of termination of the executive Directors and key management personnel's contracts of service;
- (e) ensuring that existing relationships, if any, between the Company and its appointed remuneration consultants will not affect the independence and objectivity of the remuneration consultants; and
- (f) reviewing whether executive Directors, non-executive and independent Directors and key management personnel should be eligible for options, share incentives, awards and other benefits under any one or more employee share option scheme, share-incentive or award scheme from time to time established or implemented by the Company.

The Group's remuneration policy is to provide remuneration packages which will reward, retain and motivate its executives and Directors. During FY2016, the Korn Ferry Hay Group was the remuneration consultant of the Company. The Company does not have any relationship with the Korn Ferry Hay Group that could affect the Korn Ferry Hay Group's independence and objectivity.

The Remuneration Committee, with the advice of the Korn Ferry Hay Group, recommends to the Board specific remuneration packages appropriate for each executive Director and the Directors' fees payable to the non-executive Directors. The Board will then review and, if it deems fit, approve these accordingly.

The Company adopts a remuneration policy for executive Directors and key management personnel comprising a fixed component and a variable component. The fixed component is in the form of a base salary. The variable component is in the form of a variable bonus that is linked to the performance of the Group and each individual's performance which is assessed based on the respective key performance indicators allocated to him. Staff appraisals are conducted once a year. The executive Directors do not receive Directors' fees. The corporate and individual performance-related elements of remuneration are designed to align the interests of executive Directors with those of shareholders in order to promote the long term success of the Company. The executive Directors and key management personnel had met their respective key performance indicators in respect of FY2016. No Director or member of the Remuneration Committee is involved in deciding his or her own remuneration.

In reviewing the remuneration of non-executive Directors, the Remuneration Committee and the Korn Ferry Hay Group have taken into consideration the knowledge and expertise of each individual non-executive Director, the responsibilities vested upon them and the time commitment required from the non-executive Directors given the complexities of the business and the business structure.

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<sup>2</sup> "Key management personnel" shall mean the CEO and any other persons having authority and responsibility for planning, directing and controlling the activities of the Company.

<sup>3</sup> An "immediate family member" refers to spouse, child, adopted child, step-child, brother, sister and parent.

# Corporate Governance Statement

Year Ended 31 December 2016

The Company currently does not have contractual provisions to allow the Company to reclaim incentive components of remuneration from executive Directors and key management personnel in exceptional circumstances of misstatement of financial results, or of misconduct resulting in financial loss to the Company. The Company shall consider the said contractual provisions to be included in future renewals of service contracts as recommended by the Code. Save as aforesaid, the Company reserves the rights to employ legal recourse should any Director and/or key management personnel wilfully and negligently engage in any misconduct.

As the Remuneration Committee and the Board are of the opinion that the remuneration packages of the executive Directors are of a confidential and sensitive nature, the disclosure of which would place the Group in a competitively disadvantageous position, they have chosen to make disclosures in relation thereto in bands of \$250,000.

The level and mix of the executive Directors' remuneration in bands of \$250,000 for FY2016 and the total fees payable to the non-executive Directors are set out below:

Remuneration Band Name of Executive Director	Salary %	Fees %	Bonus %	Other Benefits <sup>4</sup> %	Total %
<b>\$2,750,000 to \$2,999,999</b>					
Ms Cheong Hooi Kheng <sup>(1)</sup>	44	–	52	4	100
<b>\$3,000,000 to \$4,249,999</b>					
–	–	–	–	–	–
<b>\$4,250,000 to \$4,499,999</b>					
Mr Cheong Sim Eng <sup>(1)</sup>	45	–	50	5	100
Mr Cheong Pin Chuan <sup>(1)</sup>	27	–	59	14	100

Name of Non-executive Director	Salary \$	Fees \$	Bonus \$	Other Benefits <sup>4</sup> \$
Mr Chow Yew Hon	–	87,500	–	–
Mr Lim Jun Xiong Steven	–	80,000	–	–
Mr Chan Pengee, Adrian	–	77,500	–	–

<sup>(1)</sup> The remuneration reflected in this table includes the remuneration given by those subsidiary companies or subsidiary corporations whose financial statements are consolidated with the Company's financial statements, aggregated together with the remuneration given by the Company.

The structure of the fees paid or payable to non-executive Directors of the Company for FY2016 is as follows:

Type of Appointment	Fee Per Annum (\$)
Board of Directors	
Basic retainer	35,000
Lead Independent Director	10,000
Audit and Risk Management Committee	
Chairman	25,000
Member	12,500
Nominating Committee	
Chairman	20,000
Member	10,000
Remuneration Committee	
Chairman	20,000
Member	10,000

<sup>4</sup> There are no termination, retirement and post-employment benefits granted to Directors or the CEO.

# Corporate Governance Statement

Year Ended 31 December 2016

The level and mix of the remuneration of the key management personnel who are not Directors or the CEO (or equivalent) for FY2016 are set out in bands of \$250,000 below:

Remuneration Band Designation of Executive	Salary %	Fees %	Bonus %	Other Benefits <sup>5</sup> %	Total %
<b>Below \$250,000</b>					
Vice President (Property Management)	75	–	20	5	100
<b>\$250,000 to \$499,999</b>					
Vice President (Projects)	75	–	19	6	100
Vice President (Accounts and Finance)/ Company Secretary	74	–	25	1	100
Vice President (Marketing)	70	–	23	7	100
Director – Business Development of Hong Fok Land International Limited (“HFLIL”) <sup>6</sup>	48	–	6	46	100
<b>\$500,000 to \$749,999</b>					
Director – Project Management of HFLIL <sup>6</sup>	41	–	3	56	100
Director – Business Development of HFLIL <sup>6</sup>	48	–	4	48	100
<b>\$750,000 to \$1,249,999</b>					
–	–	–	–	–	–
<b>\$1,250,000 to \$1,499,999</b>					
Vice President (Administration and Personnel) and Senior Manager of HFLIL <sup>6</sup>	85	–	12	3	100

The aggregate amount of the total remuneration paid to the above eight (8) key management personnel was approximately \$3,966,000.

## Remuneration Packages of Employees who are Immediate Family Members of the Directors, or CEO of the Company

Certain employees, namely, (a) Ms Cheong Puay Kheng, the Vice President (Administration and Personnel) and the Senior Manager of HFLIL, (b) Mr Cheong Tze Hong, Marc, the Director – Business Development of HFLIL, and (c) Mr Cheong Tze Hian, Howard, the Director – Project Management of HFLIL, were employees of the Group whose remuneration exceeded \$50,000 each during the financial year who are immediate family members of Mr Cheong Pin Chuan, Ms Cheong Hooi Kheng and Mr Cheong Sim Eng, who were Directors of the Company for FY2016. Ms Cheong Puay Kheng is a sibling of Mr Cheong Pin Chuan, Ms Cheong Hooi Kheng and Mr Cheong Sim Eng. Mr Cheong Tze Hong, Marc and Mr Cheong Tze Hian, Howard, are the sons of Mr Cheong Pin Chuan and the nephews of Ms Cheong Hooi Kheng and Mr Cheong Sim Eng. In addition, for FY2016, Mr Cheong Pin Chuan, Ms Cheong Hooi Kheng and Mr Cheong Sim Eng, who are siblings, were employees of the Group.

The Company believes that the disclosure of the detailed remuneration packages of employees, including those who are immediate family members of the Directors or the CEO (or equivalent) of the Company would be prejudicial to the Company's interests and hamper its ability to retain and nurture the Group's talent pool and hence have chosen to make disclosures in relation thereto in bands of \$250,000.

Information of the key executive officers is set out on page 4.

The Company does not have any employee share option scheme.

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

### Audit and Risk Management Committee

The members of the audit and risk management Committee (the “Audit and Risk Management Committee”) were Mr Lim Jun Xiong Steven (Chairman of the Audit and Risk Management Committee), Mr Chow Yew Hon and Mr Chan Pengee, Adrian. The members of the Audit and Risk Management Committee (including the Chairman) possess recent and relevant accounting or related financial management expertise or experience.

<sup>5</sup> There are no termination, retirement and post-employment benefits granted to the key management personnel.

<sup>6</sup> The accounts of the HFLIL Group have been consolidated into the accounts of the Group for FY2016 for accounting purposes.

# Corporate Governance Statement

Year Ended 31 December 2016

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The Audit and Risk Management Committee had full access to and co-operation of the management. The Audit and Risk Management 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 functions 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 and Risk Management Committee.

The Audit and Risk Management 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 Singapore Exchange Securities Trading Limited ("SGX-ST").

According to the Audit and Risk Management Committee's terms of reference, the Audit and Risk Management Committee's duties and responsibilities include:

- (a) reviewing the audit plan, scope and results of the external audit and its cost effectiveness;
- (b) reviewing the independence and objectivity of the external auditors annually. Where the auditors also supply a substantial volume of non-audit services to the Company, the Committee shall keep under review the nature and extent of such services, seeking to maintain objectivity;
- (c) reviewing the significant financial reporting issues and judgments so as to ensure the integrity of the financial statements of the Company and any announcements relating to the Company's financial performance;
- (d) reviewing the quarterly and annual financial statements and financial announcements;
- (e) reviewing and reporting to the Board, at least annually, the adequacy and effectiveness of the Company's internal controls, including financial, operational, compliance and information technology controls (such review can be carried out internally or with the assistance of any competent third parties);
- (f) reviewing the results of the internal auditors' examination of the Group's system of internal controls;
- (g) monitoring the establishment, appointments, staffing, qualifications and experience of the Company's internal audit function, including approval of the appointment and compensation terms of the head of the internal audit function, review of whether the internal audit function is adequately resourced, is independent of the activities it audits, and has appropriate standing within the Company. The internal audit function can either be in-house, outsourced to a reputable accounting/auditing firm, or performed by a major shareholder, holding company, parent company or controlling enterprise with an internal audit staff;
- (h) reviewing, at least annually, the adequacy and effectiveness of the Company's internal audit function;
- (i) meeting with the external auditors, and with the internal auditors, in each case without the presence of the Company's management, at least annually;
- (j) making recommendations to the Board on proposal to shareholders on the appointment, re-appointment and removal of the external auditor, and approving the remuneration and terms of engagement of the external auditor;
- (k) reviewing policies and arrangements by which staff of the Company may, in confidence, raise concerns about any possible improprieties in matters of financial reporting or other matters and ensuring that arrangements are in place for such concerns to be raised and independently investigated, and for appropriate follow up action to be taken;
- (l) reviewing any matters relating to suspected fraud or irregularity, or suspected infringement of any Singapore laws, or regulations or rules of the SGX-ST or any regulatory authority in Singapore, of which the Committee is aware, which has or is likely to have a material impact on the Company's or Group's operating results and/or financial position, and the findings of any internal investigations, and management's response thereto;
- (m) in addition to any requirements under the Listing Manual of the SGX-ST, reviewing, at least annually, any interested person transactions<sup>7</sup>;

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<sup>7</sup> An "interested person" means: (i) a director, chief executive officer, or controlling shareholder of the Company; or (ii) an associate of any such director, chief executive officer, or controlling shareholder. An "interested person transaction" means a transaction between the Company, any of its subsidiaries, or associated companies provided the Company or the Company and its interested person(s) have control over the associate company, and an interested person.

# Corporate Governance Statement

Year Ended 31 December 2016

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- (n) determining and recommending to the Board for its approval, the nature and extent of significant risks in achieving the Board's strategic objectives;
- (o) determining the Company's level of risk tolerance and risk policies, and overseeing management in the design, implementation and monitoring of the Company's risk management and internal control systems;
- (p) advising the Board on the Company's overall risk appetite, tolerance and strategy;
- (q) overseeing and advising the Board on the current risk exposures and future risk strategy of the Company;
- (r) in relation to risk assessment:
  - (i) keeping under review the Company's overall risk assessment processes that inform the Board's decision making;
  - (ii) reviewing regularly and approving the parameters used in these measures and the methodology adopted; and
  - (iii) setting a process for the accurate and timely monitoring of large exposures and certain risk types of critical importance;
- (s) reviewing the Company's capability to identify and manage new risk types;
- (t) before a decision to proceed is taken by the Board, advising the Board on proposed strategic transactions, focusing in particular on risk aspects and implications for the risk tolerance of the Company, and taking independent external advice where appropriate and available;
- (u) reviewing reports on any material breaches of risk limits and the adequacy of proposed action;
- (v) reviewing the effectiveness of the Company's internal controls and risk management systems, and reviewing and approving the statements to be included in the annual report concerning the adequacy and effectiveness of the Company's internal controls, including financial, operational, compliance and information technology controls, and risk management systems;
- (w) providing advice to the Remuneration Committee on risk weightings to be applied to performance objectives incorporated in executive remuneration;
- (x) monitoring the independence of risk management functions throughout the organisation;
- (y) reviewing promptly all relevant risk reports on the Company; and
- (z) reviewing and monitoring management's responsiveness to the findings.

To enable the Audit and Risk Management Committee to discharge its functions more effectively, the Company outsourced its internal audit function to Deloitte & Touche Enterprise Risk Services Pte Ltd, a reputable international accounting firm which is not the external auditor. The internal audit function reports directly to the Audit and Risk Management Committee. The Audit and Risk Management Committee reviewed and approved the internal audit plan for execution. During FY2016, the Audit and Risk Management Committee met with the internal auditors and external auditors, in each case without the presence of management.

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 and adequacy 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 and Risk Management Committee has been assigned to oversee and review the effectiveness of these controls at least annually.

In FY2016, 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

# Corporate Governance Statement

Year Ended 31 December 2016

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external auditors were reported to the Audit and Risk Management Committee. The Audit and Risk Management 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 and Risk Management Committee and the Board.

The Audit and Risk Management 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 and Risk Management 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 and Risk Management 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 23 (Profit/(Loss) Before 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 and Risk Management Committee and the Board were satisfied that there were adequate and effective internal controls in place to mitigate critical and significant risks relating to financial, operational and compliance matters, information technology controls, and risk management systems. The Board, together with the Audit and Risk Management Committee and management, will continue to enhance and improve the existing internal control framework to identify and mitigate these risks.

The Board has also received assurance from the Joint Managing Directors and the Vice President (Accounts and Finance) that the financial records have been properly maintained and the financial statements give a true and fair view of the operations and finances of the Group and those subsidiary companies or subsidiary corporations whose financial statements are consolidated with the Company's financial statements, and regarding the effectiveness of the Group's risk management and internal control systems.

The Company has a whistle blowing policy which provides a mechanism for staff of the Group in Singapore to in confidence, raise concerns about fraud and other possible improprieties in matters of financial reporting or other matters. The whistle blowing policy has a well-defined process which begins with a complaint being submitted via email to the Chairman of the Audit and Risk Management Committee, who will then perform a preliminary review of the complaint received. If he determines that the complaint is valid and within the scope of the whistle blowing policy, he will report it to the Audit and Risk Management Committee accordingly, which will review the facts of the complaint and follow-up with the appropriate course of action. The Company's whistle blowing policy provides assurance that employees will be protected from reprisals for whistle blowing in good faith. Anonymous complaints are not disregarded and will also be investigated.

The Company has recently adopted an Anti-corruption and Anti-money Laundering Policy to demonstrate its commitment to conducting its business with integrity, and in compliance with all applicable laws and regulations relating to the prevention of corruption, bribery, money laundering and terrorism financing. The details of the Anti-corruption and Anti-money Laundering Policy are available on the Company's website.

The Audit and Risk Management Committee also meets with the management, the Vice President (Accounts and Finance) and external auditors to discuss and keep abreast of any changes to the accounting standards and issues which could have a direct impact on the Group or Company's financial statements.

## **COMMUNICATION WITH SHAREHOLDERS (Principles 14, 15 and 16 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. Shareholders are encouraged to attend the annual general meetings and extraordinary general meetings of the Company to ensure high level of accountability and to stay apprised of the Group's strategy and goals. At the annual general meeting, the shareholders are given an opportunity to air their views and ask questions regarding the Company and the Group. 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. All resolutions at the annual general meeting are put to the vote by way of poll and the detailed results of the voting for each of the resolutions are announced on the SGX-ST. The Company Secretary prepares minutes of general meetings that includes a summary of comments or queries made by shareholders during that meeting, and responses from the Board. Generally, during general meetings, shareholders are invited to raise questions, and this would be recorded in the minutes.

# Corporate Governance Statement

Year Ended 31 December 2016

The Company believes in regular, effective and fair communication with the shareholders. The Company's website is at [www.hongfok.com.sg](http://www.hongfok.com.sg). The Company's latest annual reports, financial results, corporate announcements and share trading information are available on the Company's website. The Company also provides an email alert service so that shareholders and investors may be automatically alerted by email once the Company releases any announcements or filings on the SGX-ST.

The Company has recently adopted an Investor Relations Policy to demonstrate its commitment to promoting regular, effective and fair communication with its shareholders to disclose material or pertinent information in a timely, transparent and accurate manner. The details of the Investor Relations Policy are available on the Company's website.

The Company's dividend policy is to distribute dividends based on the Company's performance, taking into consideration the resources needed for the Company's continuing operations and possible future plans. The declaration and payment of any dividends will be recommended by the Directors and the final dividend (if any) will be subject to the approval of the shareholders.

## INTERESTED PERSON TRANSACTIONS

During FY2016, the following interested person transaction ("IPT") was entered into by the Group:

Name of Interested Person	Aggregate value of all interested person transactions (excluding transactions less than \$100,000 and transactions conducted under shareholders' mandate pursuant to Rule 920 of the Listing Manual of the SGX-ST)	Aggregate value of all interested person transactions conducted under a shareholders' mandate pursuant to Rule 920 of the Listing Manual of the SGX-ST (excluding transactions less than \$100,000)
Hong Fok Land International Limited	\$33,858,000 (HK\$190,000,000)	N.A. The Company does not have a shareholders' mandate for interested person transactions pursuant to Rule 920 of the Listing Manual.

The Company has recently adopted a Conflict of Interests and Interested Person Transaction Policy which aims to provide guidance to Directors to help them recognise and deal with conflict of interests and to set out the Company's internal procedures and guidelines to identify, report and where necessary, seek appropriate approval of interested person transactions in order to comply with the Listing Manual of the SGX-ST. Under this policy, Directors should recuse themselves and refrain from participating in discussions regarding a transaction or proposed transaction in which the Director has an interest or is conflicted. This policy also requires the personnel involved in the proposed IPTs to endeavour to ensure that the IPTs are conducted fairly, on an arm's length basis, on normal commercial terms, and are not prejudicial to the interests of the Company and its minority shareholders.

The details of the Conflict of Interests and Interested Person Transaction Policy are available on the Company's website.

## MATERIAL CONTRACTS

Save for the interested person transactions disclosed in Note 32 (Related Parties) 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. The Guide also provides as a policy that non-executive Directors should not sell securities (including stock) of the Company prior to leaving the Company if they hold any such securities (including stock) of the Company. The details of the Guide are available on the Company's website.

# Corporate Governance Statement

Year Ended 31 December 2016

## CORPORATE SOCIAL RESPONSIBILITY

The Group is aware of the effects of its operations and the role it plays in preserving the environment. The Group strives to encourage a more environmentally responsible culture, and has adopted various measures. During FY2016, the measures that were already in place included the use of LED lights for the roof terrace and office lobby, and the use of paint materials that are environmentally preferred as opposed to those that are not. The entire air conditioning system in International Building was replaced with environmentally friendly ones that consume less energy. The Group also issues circulars to encourage the tenants of The Concourse and International Building to be environmentally friendly, including engaging in paper recycling and reducing the unnecessary use of paper.

The Concourse was admitted into the Skyrise Greenery Incentive Scheme introduced by the National Parks Board.

The Building and Construction Authority has awarded the BCA Green Mark Platinum award for The Concourse and the BCA Green Mark Gold Plus award for International Building.

The Group is committed to continue identifying opportunities to contribute to environmental sustainability.

The Company has recently adopted a Code of Conduct to set out the general principles and standards of behaviour that the Company expects from its employees in their dealings with fellow employees, customers, suppliers and business partners. The details of the Code of Conduct is available on the Company's website.

## DIRECTORS' ATTENDANCE AT BOARD, AUDIT AND RISK MANAGEMENT COMMITTEE, NOMINATING COMMITTEE AND REMUNERATION COMMITTEE MEETINGS FOR FY2016

	Board		Audit and Risk Management Committee	
	No. of Meetings <sup>(1)</sup>	Attendance	No. of Meetings <sup>(1)</sup>	Attendance
<b>Executive Directors</b>				
Mr Cheong Pin Chuan <sup>(2)</sup>	5	5	N.A.	N.A.
Mr Cheong Sim Eng	5	5	N.A.	N.A.
Ms Cheong Hooi Kheng	5	5	N.A.	N.A.
<b>Independent and Non-Executive Directors</b>				
Mr Chow Yew Hon	5	5	8	8
Mr Lim Jun Xiong Steven	5	5	8	8
Mr Chan Pengee, Adrian	5	5	8	8

	Nominating Committee		Remuneration Committee	
	No. of Meetings <sup>(1)</sup>	Attendance	No. of Meetings <sup>(1)</sup>	Attendance
<b>Independent and Non-Executive Directors</b>				
Mr Chow Yew Hon	2	2	2	2
Mr Lim Jun Xiong Steven	2	2	2	2
Mr Chan Pengee, Adrian	2	2	2	2

<sup>(1)</sup> This refers to the number of meetings held during FY2016. In addition to these meetings, operational matters that require the Board or Audit and Risk Management Committee, Nominating Committee or Remuneration Committee's attention are also dealt with via circular resolutions.

<sup>(2)</sup> Mr Cheong Pin Chuan, who is working in Hong Kong, generally participates in meetings via teleconference.

N.A.: Not applicable

# Corporate Governance Statement

Year Ended 31 December 2016

## 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 Pin Chuan	67	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	Joint Chairman of the Board	26 July 1971	29 April 2016
Mr Cheong Sim Eng	56	Bachelor of Arts	Joint Chairman of the Board	14 May 1990	30 April 2015
Ms Cheong Hooi Kheng	64	Bachelor of Science Master of Business Administration	–	1 March 1989	30 April 2015
Mr Chow Yew Hon	66	Bachelor of Business Administration (Honours) Completed the Pacific Rim Bankers' Programme in the United States of America	Chairman of Remuneration Committee, and member of Audit and Risk Management Committee and Nominating Committee	1 April 2013	29 April 2016
Mr Lim Jun Xiong Steven	61	Bachelor of Commerce Fellow member of the CPA Australia and the Institute of Singapore Chartered Accountants Member of the Society of Trust and Estate Practitioners	Chairman of Audit and Risk Management Committee and member of Nominating Committee and Remuneration Committee	25 July 2014	30 April 2015
Mr Chan Pengee, Adrian	52	Bachelor of Laws Member of the Singapore Academy of Law	Chairman of Nominating Committee and member of Audit and Risk Management Committee and Remuneration Committee	1 January 2015	30 April 2015