

CORPORATE GOVERNANCE REPORT

Haw Par Corporation Limited (the “Company”, and together with its subsidiaries, the “Group”) is committed to upholding good corporate governance practices so as to enhance long-term shareholder value and safeguard the interests of its stakeholders. It has adopted a framework of corporate governance policies and practices in line with the principles and guidelines of the Code of Corporate Governance 2012 (the “Code”). The following sections describe the Group’s corporate governance practices and structures that were in place during the financial year ended 31 December 2017 (“FY 2017”) and explain deviations from any guideline of the Code.

BOARD MATTERS

Board’s Conduct of its Affairs

The principal responsibilities of the Board include:

- approving strategic plans and annual budgets;
- approving major funding, acquisition, investment and divestment proposals;
- ensuring that management establishes and maintains a sound system of internal controls, risk management, financial reporting and statutory compliance in order to safeguard shareholders’ interests and the Group’s assets;
- reviewing the performance of management in attaining agreed goals and objectives;
- approving the announcement of financial results and declaring dividends;
- guiding, reviewing and approving corporate strategy and financial planning, including major capital expenditures, acquisitions and divestments;
- reviewing and approving material interested person transactions (“IPT”) and related person transactions and
- ensuring succession planning.

All Board members bring their judgement and breadth of diversified knowledge and experience to bear on issues of strategy (including sustainability and environmental issues), performance, resources and standards of conduct. Board members exercise due diligence and discharge their duties and responsibilities objectively at all times as fiduciaries, in the best interests of the Company.

The Board meets at least four times a year to review the performance and business strategy of the Group. Meetings are scheduled in advance. Ad-hoc meetings are called when there are important and urgent matters requiring the Board’s consideration. Board approval by circular resolutions in writing is sometimes done between scheduled meetings.

The Group has adopted internal guidelines which set out specific matters requiring Board approval. These written guidelines also include financial and non-financial limits of authority given to management. Under the guidelines, Board approval is required for material transactions including joint ventures, mergers and acquisitions, and for the adoption and amendment of the Group risk management policy. In respect of matters in relation to which a Board member has a conflict of interest, the Board member must abstain from any discussion or vote.

On sustainability issues, the Sustainability Steering Committee (“SSC”) consisting of senior management and led by the CEO, champions sustainability efforts and priorities at the Group. The SSC reports to the Board, which has specially considered sustainability issues as part of its strategic formulation, and has determined the Environmental, Social and Governance (“ESG”) factors identified as material to the business of the Group. The Board oversees the management and monitoring of these ESG factors. The material ESG factors that have been identified for the first Sustainability Reporting of the Group include economic performance, compliance and good governance, occupational health and safety of employees, and product quality and safety. The report can be found on the Company’s website at www.hawpar.com/sustainability.

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The Board has delegated specific responsibilities to four Board Committees, which are the Audit, Nominating, Remuneration and Investment Committees. Each of these Committees has its own charter/terms of reference. This is reviewed periodically to ensure its continued relevance. Changes to Board Committees' composition and appointments to the Board Committees are approved by the Board.

The Board held five meetings during FY 2017. Directors can attend Board and Board Committee meetings by telephone conference if they are unable to attend in person. The attendance of Directors at the Annual General Meeting (AGM), Extraordinary General Meeting (EGM), Board and Board Committee meetings held in FY 2017 is as follows:

Table 1:
Number of meetings attended in FY 2017

Name	Board	Audit Committee	Nominating Committee	Remuneration Committee	Investment Committee	AGM	EGM
Wee Cho Yaw (Non-Executive / Non-Independent)	5 ⁽²⁾	N/A	1	2	6 ⁽²⁾	1	1
Wee Ee-chao (Non-Executive / Non-Independent)	3	N/A	N/A	N/A	N/A	1	1
Wee Ee Lim⁽¹⁾ (Executive / Non-Independent)	5	4	N/A	2	6	1	1
Sat Pal Khattar (Non-Executive / Independent)	4	N/A	1 ⁽²⁾	2 ⁽²⁾	N/A	1	1
Chew Kia Ngee (Non-Executive / Independent)	5	6 ⁽²⁾	N/A	N/A	N/A	1	1
Hwang Soo Jin (Non-Executive / Independent)	4	N/A	N/A	2	N/A	1	1
Lee Suan Yew (Non-Executive / Independent)	5	N/A	1	N/A	N/A	1	1
Peter Sim Swee Yam (Non-Executive / Independent)	5	6	1	N/A	N/A	1	1
Gn Hiang Meng (Non-Executive / Independent)	4	6	N/A	NA	NA	1	1
Han Ah Kuan (Executive / Non-Independent)	5	N/A	N/A	N/A	6	1	1
Number of meetings held in FY 2017	5	6	1	2	6	1	1

Notes:

- (1) Mr Wee Ee Lim was in attendance to provide management's perspective at the meetings of the Audit and Remuneration Committees although he is not a member of either Board Committee.
- (2) Denotes chairman of the Board / Board Committee.

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The Board and Board Committees also make decisions by way of circulation resolutions in writing as needed.

Directors are appointed by way of formal letters of appointment which set out their duties and obligations. The Company has in place a comprehensive orientation programme for newly appointed Directors. The programme is tailored according to the profile and experience of new Directors. It includes training in areas such as industry and operational knowledge or accounting updates, duties as directors and how to discharge those duties as well as meetings with key personnel for new Directors to understand the Group's businesses, governance practices, strategic plans and objectives. Site visits are conducted as needed. The orientation programmes are conducted by the CEO, Company Secretary and various heads of business unit and functions, in order to familiarise new Directors with the Group's operations, practices and code of conduct.

The Company is a corporate member of the Singapore Institute of Directors. The Company encourages Directors to keep abreast of relevant new laws, regulations, changing commercial risks and industry development from time to time and arranges and funds the training of Directors to attend external courses and talks by professional organisations if these are relevant and needed. Directors are continuously updated on developments in the regulatory and business environment affecting the Group, by the Company Secretary and auditors. During the year, the Directors were given briefings and updates on the new requirements of Sustainability Reporting, changes in the regulatory environment and new accounting standards/reporting requirements. The Directors do not appoint alternate directors to perform any of their roles.

Board Composition and Guidance

The Board considers its present size of ten Directors appropriate for the current scope and nature of the Group's operations. Eight of these Directors are Non-Executive directors. The Nominating Committee ("NC") has reviewed the composition of the present Board and is satisfied that the Directors, as a group, possess core competencies in management experience, strategic planning, customer-based experience, accounting, finance, legal and the necessary industry knowledge. The NC is aware of the importance of diversity of the Board and Board appointments will continue to be based on merit and diversity.

The NC, having regard to the Code's guidance for assessing independence, has determined that the majority of Directors on the Board, being six Non-Executive Directors, namely Mr Sat Pal Khattar, Dr Lee Suan Yew, Mr Hwang Soo Jin, Dr Chew Kia Ngee, Mr Peter Sim and Mr Gn Hiang Meng, are Independent Directors, as indicated in Table 1 above, and that they are independent and have maintained their independence throughout the year.

Independent Directors have no relationships with the Company, its related corporations, its substantial shareholders or its officers which could interfere, or be reasonably perceived to interfere, with the exercise of their independent business judgement in the best interests of the Company. They are not substantial shareholders and are independent of the substantial shareholders of the Company.

The Independent Directors are not family members of any substantial shareholder of the Company and were not directly associated with any substantial shareholder in FY 2017 or the immediate past financial year. They and their immediate family members did not have any financial dealings with the Group whether in FY 2017 or the immediate past financial year, nor were they or any of their immediate family members, during FY 2017 or the immediate past financial year, a substantial shareholder of, or a partner in (with 10% or more stake), or an executive officer of, or a director of, any organisation to which the Group made, or from which the Group received, significant payments or material services (including auditing, banking, consulting and legal services) in FY 2017 or the immediate past financial year. Also, neither they nor any of their immediate family members were in FY 2017 or the past three financial years employed by the Group. In addition, they and their immediate family members did not receive any significant compensation (of more than \$200,000) from the Company or any of its related corporations for the provision of services, for FY 2017 or the immediate past financial year, other than compensation for services on the Board.

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Although three of the Directors, namely Mr Sat Pal Khattar, Dr Lee Suan Yew and Mr Hwang Soo Jin, have served as Non-Executive Directors for more than nine years each, the NC and the Board are of the view that their length of service did not compromise their independence in the discharge of their duties. Notes of Board and Board Committee meetings show that each of the three Directors continues to express his individual independent viewpoints and at all times in the interests of the Company. Accordingly, the NC and the Board have determined that Mr Sat Pal Khattar, Dr Lee Suan Yew and Mr Hwang Soo Jin can continue to be designated as Independent Directors.

The Board will continue to look for new members who can serve the Board as older members step down.

Chairman and Chief Executive Officer

There is a clear division of the role and responsibilities between the Non-Executive Chairman of the Board and the CEO, who is the son of the Chairman. The Chairman's principal role is to lead and guide the Board. The scope of responsibilities and limits of authority of the CEO are set out in writing. The CEO executes the strategic directions set by the Board and is responsible for the Group's day-to-day operations.

Although the Chairman and CEO are related, the Board is of the opinion that it is not necessary to appoint a lead independent director. A shareholder can approach any Independent Director for assistance through the Company Secretary, if he /she has any issues that affect shareholders generally. Where necessary, the Independent Directors also have the discretion to meet without the presences of other Directors and can provide feedback to the Chairman following such meetings. The chairmen of the Board Committees have sufficient standing and authority to look into any matter which management or Executive Directors fail to resolve.

Nominating Committee

The NC comprises four members, namely, Mr Sat Pal Khattar, Dr Wee Cho Yaw, Dr Lee Suan Yew and Mr Peter Sim. The majority of the NC, including the chairman of the NC, Mr Sat Pal Khattar, are Independent Directors.

The principal responsibilities of the NC are to:

- recommend appointments / reappointments of Directors and key executives, including the CEO;
- review the composition of the Board and Board Committees;
- perform succession planning for Directors, in particular for the Chairman and the CEO;
- assess the independence of Directors;
- evaluate the performance of the Board and Board Committees; and
- review training and professional development programmes for Directors.

Each year, the NC reviews the composition of the Board as part of its succession planning. Suitable candidates are identified through personal and professional networks. The NC reviews the candidate objectively. When assessing potential candidates, the NC takes into account the existing Board composition, the candidate's background, qualification, experience, time commitment and his/her ability to contribute to the Board's collective skills, knowledge and experience. Where a suitable candidate is found and assessed to be suitable, the NC makes a recommendation for the Board to approve the formal appointment.

The NC makes annual recommendations to the Board on the re-election of existing Directors having regard to their competencies, commitment, contributions and performance on a qualitative basis. All Directors submit themselves for renomination and reappointment at regular intervals and at least once every three years. Each year, one-third of the Board retires from office by rotation. New Directors submit themselves for re-election at the AGM immediately following their appointment by the Board.

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In its review of Directors' ability to commit time to the Company's affairs, the NC has taken into account whether a limit on the number of boards of other listed companies that Directors can sit on is necessary. The NC decided that it was not necessary to prescribe a limit on the number of boards of other listed companies that Directors of the Company can sit on. Although some Directors have multiple board representations and principal commitments, none of them has more than six listed company directorships and the NC is satisfied that each Director is able to and has devoted sufficient time and attention to the Company's affairs to adequately and competently carry out his duties as a Director of the Company. For a full list of each Director's directorships in listed companies and principal commitments, please refer to the "Board of Directors" section of this Annual Report.

Board Performance

The NC evaluated and assessed the effectiveness of the Board's performance as a whole, taking into consideration, amongst other matters, the Board's discharge of its principal responsibilities, earnings of the Group, return on equity and the share price performance of the Company over a five-year period. These performance criteria also include performance of the Company as compared to industry peers and is linked to long term shareholder value. The NC is of the opinion that the Board as a whole has performed well during FY 2017 and that the Chairman and each Director have contributed to the overall effectiveness of the Board.

The NC evaluated and reviewed the performance of the Board Committees (except the NC itself). It is satisfied with the matters dealt with by the Board and Board Committees and the depth and frequency of such deliberations.

The Chairman of the Board and the Chairman of the NC evaluated the collective performance, commitment and contribution of all Directors based on each Director's attendance and contribution at Board meetings. They also reviewed the contribution of the Executive Directors and are of the view that the performance of each of them has been satisfactory.

Access to Information

Directors have unfettered access to complete and adequate information on the Group's financials and operations in a timely manner. Comprehensive information including information on strategic, financials, key operational and compliance matters is provided to Directors on a monthly and quarterly basis to enable them to make informed decisions. Matters requiring the Board's decision are generally sent to Directors at least five working days prior to Board meetings. During the year, the Board adopted the use of an electronic portal to which electronic board papers are uploaded for its meetings. This also increased the Board's control over confidential and price sensitive information in a secured environment, while reducing paper usage as part of its sustainability efforts. The electronic portal also contains a library of resources, including constitutional documents, documents relating to past Board meetings and annual reports as well as communication tools to enable Directors to have the required information at their fingertips throughout the year.

Regular Board meetings are scheduled in November each year for the following year while urgent Board meetings, if needed, are normally scheduled at least five working days in advance. The Board is also provided with opportunities to meet with managers and heads of divisions, on a quarterly basis, to understand the businesses of the Group. In the event a new business project or matter requires the Board's input, the relevant head of division and/or subject expert will be present in person at the relevant Board Meeting to facilitate the Board's decision-making. Non-Executive Directors constructively challenge management's proposals on strategy and review the performance of management in meeting short and long term business goals.

Directors have separate, independent and unrestricted access to the Company Secretary for assistance. The Company Secretary is required to attend and attends all Board and Board Committee meetings. She ensures that Board procedures are followed and the rules and regulations applicable to the Board are complied with. The Company Secretary is responsible for ensuring adequate information flows within the Board and Board Committees and between senior management and Non-Executive Directors, advising the Board on all governance matters, as well as facilitating orientation and assisting with professional development as required. Under the Constitution of the Company, the decision to appoint or remove the Company Secretary rests with the Board as a whole. Directors may take independent professional advice, if necessary.

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REMUNERATION MATTERS

Procedures for Developing Remuneration Policies

The Remuneration Committee ("RC") comprises three members, namely Mr Sat Pal Khattar, Dr Wee Cho Yaw and Mr Hwang Soo Jin. The majority of the RC, including the chairman of the RC, Mr Sat Pal Khattar, are Independent Directors. All the members of the RC are Non-Executive Directors. The RC is supported by the Human Resource Director and/or external consultants if needed.

The principal responsibilities of the RC include:

- (a) in consultation with the Chairman of the Board, reviewing and recommending to the Board for its endorsement, a framework of remuneration for the Board and the key management personnel of the Company;
- (b) reviewing and recommending to the Board for its endorsement the remuneration packages/fees of Directors;
- (c) reviewing the remuneration packages for key management personnel; and
- (d) administering the Company's long term incentive plan.

During the year, the RC reviewed the amount of Directors' fees payable to the Non-Executive Directors to be recommended for shareholders' approval. It also assessed the performance of and determined all aspects of remuneration of the Executive Directors, and reviewed the remuneration packages for key management personnel and share options granted to eligible staff and the terms thereof.

The RC has reviewed the Group's obligations arising in the event of termination of the service contracts of the Executive Directors' and key management personnel, to ensure that such service contracts contain fair and reasonable termination clauses which are not overly generous. The RC considered whether contractual provisions are necessary to allow it to reclaim incentive components of remuneration from Executive Directors and key management personnel. As the nature of the industry and business model of the operations are not overly complex, the RC did not think such provisions are necessary.

Level and Mix of Remuneration and Disclosure on Remuneration

The RC takes into consideration current industry norms on compensation and adopts a remuneration policy in line with industry practices.

None of the Non-Executive Directors has any service contract or consultancy agreement with the Company. Non-Executive Directors, including the Chairman of the Board, are paid directors' fees which comprise a basic fee and additional fees for serving on Board Committees. None of the Board members or RC is involved in deliberations relating to any remuneration, fees, options and/or benefits to be granted to him individually. The RC recommends Directors' fees to the Board for endorsement prior to submission to shareholders for approval at each AGM. In the process, the RC takes into consideration the complexity of the Group and workload of each Board Committee member as well as market trends before recommending the fee structure to the Board. The Company's share option scheme, the Haw Par Corporation Group 2002 Share Option Scheme (the "Scheme"), allows for grants of share options to Non-Executive Directors. To date, the Non-Executive Directors have not been granted any share option. The Scheme expired during FY 2017.

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The Directors' fee⁽¹⁾ structure for services on the Board and Board Committees is as follows :-

Board	\$
- Chairman	80,000
- Deputy Chairman	52,000
- Member	40,000
Audit Committee	
- Chairman	20,000
- Member	10,000
Nominating and Remuneration Committee	
- Chairman	10,000
- Member	5,000

(1) The remuneration structure of the Non-Executive Directors is based solely on a retainer fee basis, with additional fees for Board Committee membership to commensurate with effort, time and role of Board Committee Members. There is no change in the fee structure for FY 2017 as compared to the previous year.

The Group generally remunerates its employees at market competitive levels, commensurate with their performance and contribution to the long-term interests and success of the Group. It takes into account the risk policies of the Group including risk outcomes and the time horizon of risks. The remuneration package normally comprises fixed and variable components. The fixed component comprises basic salary, allowances and provident fund contributions. The variable component comprises variable amount based on the Group's and each individual's performance and grants under the Haw Par Long term Cash Award Plan ("HPLTI Plan"). A variable bonus scheme is in place for each business unit. This economic value-added based bonus scheme takes into consideration working capital efficiency, productivity and current year earnings in order to derive a pool for distribution in accordance with the individual's performances and his/her contributions towards meeting the respective workplans for the year. In determining the pool, investment income relating to the dividend income from the Group's strategic investments and interest income/expense from the Group's central treasury function are excluded. Eligible employees are also entitled to receive grants under the HPLTI Plan, which places emphasis on rewarding individual employees based on their performance (as explained in greater detail below).

In the annual review of the remuneration of the Executive Directors and key management personnel, the RC takes into consideration performance of the individuals as an important factor in its review and comparative remuneration of similarly placed persons in the market. The performance criteria for the Executive Directors include achievement of financial objectives using financial indicators such as overall profitability and return on assets over a period of time, which criteria were chosen in order to incentivise the Executive Directors and align their interests with that of the Group. These criteria were satisfactorily met during FY 2017. Their remuneration is reviewed annually by the RC and includes a variable bonus component which is performance-based as described above. The level and structure of remuneration for Executive Directors are aligned with the long term interests of the Group.

Share options were granted to Executive Directors and eligible key executives, based on their performance during 2016. These share options are granted at market price around the date of grant and can only be exercised after a vesting period which is usually one year. In the event of misconduct on the part of a participant in the Scheme, the RC may in its absolute discretion treat any outstanding option as lapsed and null and void. Following the grant of share options in March 2017, no further grants were made and the Scheme expired in June 2017. More information on the Scheme can be found in the Directors' Statement and notes to the financial statements.

In 2016 and 2017, the RC, appointed Mercer, an independent consultant, to review the Scheme to consider its relevance. Pursuant to the review, the Scheme was not recommended to be renewed. The HPLTI Plan was put in place and was approved by the Board in FY17 to take effect from 1 January 2018.

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The objective of the HPLTI Plan is to incentivise key management personnel to drive long term business priorities and shareholder value. Under the HPLTI Plan, targets are set in advance over a two year performance period. Based on the achievement levels of the targets at the end of the performance period and with RC's approval, participants will receive the cash awards. Besides total shareholder returns, equal weightage is given to revenue and operating profit growth, with defined superior, target and threshold performance metrics based on two year rolling budgets approved by the Board. The RC reviews the definition of superior, target and threshold performance metrics before annual grants are awarded and will continue to review the relevance of the above key performance metrics.

Disclosure of Remuneration

The details of the remuneration of each Director for FY 2017 are as follows:

Table 2:

Name	Directors' Fees ¹ \$'000	Base or fixed salary \$'000	Variable bonus \$'000	Benefits-in-kind and others \$'000	Total \$'000	Total Share options granted ² No. of shares
Wee Ee Lim	–	909	829	87	1,825	–
Han Ah Kuan	–	365	332	78 ³	775	66,000
Wee Cho Yaw	90	–	–	–	90	–
Wee Ee-chao	52	–	–	–	52	–
Sat Pal Khattar	60	–	–	–	60	–
Hwang Soo Jin	45	–	–	–	45	–
Lee Suan Yew	45	–	–	–	45	–
Chew Kia Ngee	60	–	–	–	60	–
Peter Sim Swee Yam	55	–	–	–	55	–
Gn Hiang Meng	50	–	–	–	50	–

The remuneration of each of the top five senior executives of the Group (who are not Directors or CEO), in no order of quantum sum, is as follows:

Table 3:

Name / Position	Base or fixed salary	Variable bonus	Benefits-in-kind and others ³	Total	Total share options granted ² No. of shares
\$250,000 – \$500,000	%	%	%	%	
Goh Bee Leong, GM – Manufacturing	55	38	7	100	35,000
Jasmin Hong, GM – Marketing	55	39	6	100	44,000
Keeth Chua, DGM – Marketing	56	37	7	100	26,000
Tarn Sien Hao, Group GM	58	33	9	100	44,000
Zann Lim, CFO	54	40	6	100	33,000

1 Directors' fees are subject to shareholders' approval at the forthcoming annual general meeting on 24 April 2018.

2 Share options granted on 1 March 2017 at an exercisable price of \$9.96 over the option period from 1 March 2018 to 28 February 2022.

3 Includes fair value of share options granted which is estimated using the Trinomial valuation model.

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The total remuneration paid/accrued to the top five senior executives is \$2,057,000.

The aggregate amount of termination, retirement and post-employment benefits that may be granted to Directors, the CEO and the top five key management personnel is about \$588,000.

Save as disclosed below, there is no employee (other than the CEO) who is an immediate family member of a Director or the CEO and whose remuneration exceeds \$50,000 in FY 2017. A relative of the CEO, Mr Kelvin Whang, who is the General Manager of Underwater World Pattaya, received annual remuneration (including benefits-in-kind) of between \$200,000 to \$250,000.

ACCOUNTABILITY AND AUDIT

Accountability

The Board provides shareholders with a balanced and clear assessment of the Group's performance, position and prospects through announcements of its quarterly and full-year results as well as timely announcement of any price-sensitive information, through disclosure via SGXNET and various other media, including press releases posted on the Company's website. Internal guidelines are in place to comply with legislative and regulatory requirements and management provides the Board with management reports of the Group on a monthly basis and additional details as the Board may require from time to time. The management reports, containing sufficient details and comparisons to planned budgets, provide the Directors with a means to monitor and make balanced and informed assessment of the Group's performance, position and prospects.

Risk Management and Internal Controls

The Group has established a formal risk management framework across the entire organisation to provide a structured approach for managing risks. The framework enables management to have a formal structure in risk management assessment. The framework is designed to ensure that risks are identified, assessed, monitored and effectively managed. It is in line with the best practices as contained in the Risk Governance Guidance for Listed Boards, issued by the Corporate Governance Council in May 2012.

The Board has overall responsibility for the governance of risk and determination of risk policies. The Board, assisted by the AC, is responsible for determining the Company's level of risk tolerance and oversees the management in implementing the risk management and internal controls system.

The Risk Management Committee is chaired by the CEO and comprises an Executive Director, the CFO, the Group Internal Audit Manager and Group GM. It performs the following roles:

- oversees the development of risk management policies;
- provides overall leadership, vision, framework and direction for risk management;
- promotes a risk management culture through human resources, use of technology and organisation structure;
- monitors the effectiveness of risk management and makes refinements as and when necessary;
- ensures that risks are properly addressed; and
- reports to the AC and the Board twice a year on risk management activities and attestation undertaken.

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Risks are analysed and assessed in terms of risk impact and risk likelihood. Risk impact includes financial, operational (business interruption), regulatory/legal and reputational impact. Risk likelihood includes both quantitative and qualitative appraisals and classified as 'Low', 'Moderate', 'High' and 'Critical'. Management evaluates the options and controls needed to deal with identified risks, depending on the risk impact, likelihood and related costs and benefits. These risks are reviewed both against the entity level parameters and from the Group's perspective. The AC monitors the Risk Management Committee's activities on behalf of the Board to ensure that identified risks are effectively managed.

Risks are broadly categorised as follows:

Strategic risks

These include most of the inherent risks of each operating unit and the relevant macro-environment such as brand protection, competition and epidemic outbreak risks. All such risks are reported to the AC and the Board. Measures taken to manage risks include diversifying either geographically or in product offerings, putting in place business continuity plans and ensuring sufficient insurance coverage for various types of risks.

Operational risks

These relate to day-to-day operations and include security threats, product quality, employee attrition, capacity management, supply disruption and concentration risk of key suppliers. The general manager of each operating unit implements policies and procedures to monitor such risks. Yearly review and updates are provided to the AC.

Compliance risks

Each operating unit is subject to various degrees of regulatory controls, particularly the Healthcare division. Compliance with local laws and regulations in various geographical locations is monitored by the operating unit and the functional departments in Singapore.

Financial risks

Financial risks are mitigated by using appropriate hedging instruments when necessary and actively managing foreign exchange and credit exposures. Financial risks are monitored by the Investment Committee. Generally, the Group is conservative in its financial dealings and does not engage in speculative instruments that would expose the Group to unnecessary financial risks.

Information Technology ("IT") risks

In pursuit of an IT environment that is robust, resilient and secure, improving the Group's IT infrastructure continues to be the focus of IT operations. Adequate measures including proper authorisation access, back-ups systems and equipment are in place to safeguard against prolonged disruptions to businesses due to IT failures and loss of confidential data. In view of emerging cyber threats, additional measures and trainings have also been implemented during the year.

The Board (assisted by the AC) reviews the adequacy and effectiveness of the Company's risk management and internal control systems, including financial, operational, compliance and IT controls twice a year.

For FY 2017, the Board has received assurances from the CEO and the CFO:

- (a) that the financial records have been properly maintained and the financial statements give a true and fair view of the Company's operations and finances; and
- (b) that the Company's risk management and internal control systems are adequate and effective in all material respects as at 31 December 2017.

Based on work performed by the internal and external auditors and reviews undertaken by the Risk Management Committee and the AC, the Board, with the concurrence of the AC, is of the opinion that the internal controls addressing financial, operational, compliance and IT risks, and risk management systems and processes, were adequate and effective for the Group as at 31 December 2017.

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The Group's internal controls and risk management systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable, but not absolute, assurance that the Group will not be adversely affected by any reasonably foreseeable event. The Board recognises that no system of internal controls and risk management can provide absolute assurance.

Audit Committee ("AC")

The AC comprises three members, namely, Dr Chew Kia Ngee, Mr Gn Hiang Meng and Mr Peter Sim, all of whom are Non-Executive Independent Directors. The chairman of the AC, Dr Chew Kia Ngee, is a senior accountant with over 40 years' experience in the profession. Mr Gn Hiang Meng was a senior banker with more than 30 years' experience in investment banking and hospitality industry. Mr Peter Sim is a practising lawyer with more than 30 years of legal practise and experienced in a wide-range of industry practices. None of the AC members was a partner or director or has any financial interest in the Company's existing auditors in the last 24 months.

The principal responsibilities of the AC include:

- reviewing the audit plans with the internal and external auditors;
- reviewing the audit report of the external auditors and the results of the internal audit procedures;
- recommending the appointment, re-appointment and removal of external auditors and approving the compensation and terms of engagement of the external auditor;
- reviewing annually the independence and objectivity of the external auditor, the cost effectiveness of the audit, and the nature and extent of non-audit services;
- approving the hiring, removal, evaluation of the performance and compensation of Group Internal Audit Manager;
- ensuring that the internal audit function is adequately resourced and has appropriate standing within the Group;
- reviewing the adequacy of the internal audit function annually;
- reviewing the Group's quarterly and full year results and annual financial statements prior to approval by the Board, and the appropriateness and consistency of accounting principles and policies adopted across the Group, including significant financial reporting issues and judgements;
- reviewing the adequacy and effectiveness of the Company's system of internal controls, including accounting controls, and addressing financial, operational, compliance and IT risks and risk management processes;
- reviewing IPTs and material related party transactions; and
- reviewing whistle-blowing reports.

The AC has full authority to investigate any matter including but not restricted to issues of internal controls, suspected fraud or irregularity. It has access to and full co-operation by the management and may invite any Director or executive officer to attend its meetings.

During FY 2017, the AC held six meetings during which it performed its responsibilities as set out above. The Group's internal and external auditors were also present at the regular quarterly meetings. The AC met the external and internal auditors separately without the presence of management to discuss the competency and adequacy of finance function, cooperation provided by management and inquired into material weaknesses or control deficiencies noted during the course of their work. There was no adverse feedback from these meetings.

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In its review of the financial statements, the AC discussed with management the key accounting policies applied and areas where judgement and critical estimates were involved. After extensive discussions, the AC was satisfied with the measurement and disclosure of the related financial instruments in the Group's financial statements in all material aspects. The AC also discussed with the external auditor all significant matters noted during their audit which are contained in their report to the AC. The valuation of financial assets was a key audit matter highlighted by the auditor in its audit report. Following the review and discussions, the AC recommended to the Board to approve the full year financial statements. The AC has reviewed the impact of the adoption of Singapore Financial Reporting Standards (International) (SFRS (I)) which are effective from 1 January 2018. The preliminary assessment of the impact of transitioning to SFRS (I) is not expected to be material to the Group, except as set out in Note 2 to the financial statements.

During FY 2017, the AC reviewed material IPTs involving the Group and UOL Group Limited (UOL) relating to the Group's interests in United Industrial Corporation (UIC). Details are disclosed in the "Interested Person Transactions" section of this report and Note 14 to the financial statements. The AC held several meetings with the management team (comprising the CFO, Group GM and Head of Asset Management, all of whom do not have any interests in UOL or UIC) and/or the independent financial advisor (where applicable) to discuss the terms of the transactions and reviewed various market parameters. The AC was of the view that these transactions are conducted on normal commercial terms, and were not prejudicial to the interests of the Company and its minority shareholders.

In reviewing non-audit services, the AC was satisfied that amount of non-audit services provided by the external auditor was not material and would not impair the independence of the external auditor. The AC has confirmed that the Company has complied with Rule 712 and Rule 715/716 of the Listing Manual of Singapore Exchange Securities Trading Limited ("SGX-ST") which set out the requirements on the appointment of the auditor. The AC has recommended to the Board the re-appointment of PricewaterhouseCoopers LLP as the Group's auditor for the ensuing year. The aggregate amount of fees paid/payable to PricewaterhouseCoopers LLP for FY 2017 is approximately \$345,000. The breakdown of fees paid/payable for audit and non-audit services is approximately \$320,200 and \$24,800 respectively. The AC has reviewed and is satisfied with the independence and objectivity of the external auditor.

The AC members are regularly updated by management and the auditors (both internal and external) on changes to accounting standards and issues which have a direct impact on financial statements, compliance with legislation and accounting-related matters.

Code of Conduct and Whistle Blowing Policy

The Group has in place a Code of Conduct that sets out the business practices, procedures and ethical conduct expected of all employees in their course of employment and in dealings with customers, suppliers and consultants. The Code of Conduct is sent to all employees and newly hired employees have a separate briefing on the Policy.

In line with the Code of Conduct, the Group has in place a whistle-blowing policy and process under which employees and external parties may report to the AC any improprieties or suspected wrong-doing by management or other staff without fear of reprisal. Whistleblowing reports marked "Private and Confidential" may be sent to the Group Internal Audit Manager at Haw Par Corporation Limited, 401 Commonwealth Drive, #03-03 Haw Par Technocentre, Singapore 149598. All reports received are accorded confidentiality and independently investigated by the whistleblowing unit, comprising the Human Resource Director and Group Internal Audit Manager. Details of the whistleblowing policy are posted on the Company's intranet. New employees are briefed on the policy during their orientation. Existing employees are reminded of the policy from time to time in order to raise awareness of the availability of the channel of reporting. The Code of Conduct is effectively communicated and integrated into the Company's strategy and operations, including risk management systems and remuneration structures.

Internal Audit

The Company has an internal audit ("IA") department, which is staffed with professionally qualified personnel. The Group Internal Audit Manager, who has close to three decades of internal audit experience within the Group, reports directly to the Chairman of the AC and to the CEO on administrative matters. The majority of the IA department are members of the Institute of Internal Auditors. The appointment, removal, evaluation of performance and compensation of the Group Internal Audit Manager rests with the AC.

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The IA function follows the Standards for the Professional Practice of Internal Auditing set by the Institute of Internal Auditors. The IA function adopts an Internal Audit Charter that is reviewed annually and has strict procedures in reporting its audit findings to the management and the AC.

The role of the IA function is to render support to the AC in ensuring that the Group maintains a sound system of internal controls by performing regular monitoring and testing of key controls and procedures, reviewing operational and financial activities and undertaking investigations as requested by the AC.

The IA department submits its internal audit plan to the AC for approval at the beginning of each year. Internal Audit reviews are carried out on all significant business units in the Group and a summary of findings and recommendations is discussed during each AC meeting. The IA has unfettered access to the AC and to all documents, records, properties and personnel for the purposes of its audit. The AC is of the view that the IA function is adequately resourced and staffed with persons with the relevant qualifications and experience and has appropriate standing within the Company.

Shareholders Rights and Communication with Shareholders

The Group is guided by an investor relations policy that aims to promote regular, effective and fair communication with shareholders. Communication of relevant announcements of the Group is generally made through annual reports, press releases, SGXNET announcements and its corporate website at www.hawpar.com. In line with its sustainability efforts and the increasing prevalence of the use of the internet, the Company's Annual Report is made available through the Group's website and SGXNET. The manner in which the Annual Report may be accessed, that is, by entering the URL or scanning the QR Code is provided in the Company's letter to shareholders. The URL at which the Annual Report may be accessed is also set out in the Notice of AGM. Physical copies of the request form and the Notice of AGM are circulated to all shareholders. By filling in the Request Form, shareholders may also request for a physical copy of the Annual Report.

A dedicated communications channel with the Investor Relations Department is available to shareholders and can be reached via email at investorrelations@hawpar.com. The Investor Relations Department is required to respond to shareholders' queries in a timely and effective manner. When matters requiring shareholders' meetings are to be held, notices are published in newspapers and reports / circulars are communicated in a timely manner to all shareholders. Shareholders are informed of the rules, including voting procedures, which govern the shareholders' meetings. Resolutions of all general meetings of shareholders are conducted by electronic poll. The results of the votes for all resolutions taken during AGMs and other general meetings of shareholders are validated by independent scrutineers and are broadcast at the said meetings. The results are also announced on SGXNET after the meetings. The meetings' minutes with substantial and relevant comments are prepared, and made available to shareholders at the registered office upon request within a reasonable time after each general meeting.

The Company holds regular meetings (outside of black-out periods) with research analysts, fund managers and institutional investors to understand the views of shareholders, review the Company's performance and provide investors with a better understanding of the Group's businesses, as needed.

Conduct of Shareholder Meetings

The Company ensures that shareholders are given the opportunity to participate effectively in and vote at general meeting. The Company encourages the attendance of shareholders at general meetings, which are always held at a central location in Singapore. At such general meetings, shareholders are invited to raise questions on any matter relating to the meeting agenda that needs clarification. The notices of general meetings setting out the agenda, and if necessary, letters to shareholders on the item of special business, are communicated to shareholders at least 14 clear days before general meetings called to pass ordinary resolutions or 21 days before general meetings called to pass special resolutions. Each item of special business included in the notice of the meeting will be accompanied by a full explanation regarding the effect of the proposed resolution in respect of such business. Separate resolutions are proposed for substantially separate issues at the meeting. Chairman and all Directors (in particular, the chairmen of the AC, NC and RC) as well as the external auditor are present at general meetings to address queries from shareholders on matters affecting the Group and the conduct of external audit. The Company Secretary is present to ensure that procedures under the Constitution and the Listing Manual of the SGX-ST are followed. Key management personnel are also present at such general meetings to respond to queries from shareholders.

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A registered shareholder who is unable to attend a general meeting can appoint up to two proxies to attend, participate and vote at the general meetings on his/her behalf. In addition, a member who is a relevant intermediary, which generally includes Singapore banks and nominee or custodial service providers, as well as the Central Provident Fund Board, may appoint more than two proxies so that shareholders who hold shares through such members can attend, participate and vote at general meetings as proxies, in accordance with the provisions of the Constitution. Investors whose shares are held through relevant intermediaries can submit their requests to attend, participate and vote at each general meeting within the stipulated time period as required by such intermediaries, who will then communicate such requests to the Company not less than 72 hours before the general meeting is held.

The Company's dividend policy seeks to provide shareholders with a stable and efficient form of capital distribution relative to earnings. For more than 30 years the Company has maintained sustainable dividend payments with an upward trend. In certain years, such as in 2013 and 2016, the Company issued bonus shares and paid special dividends respectively.

OTHER GOVERNANCE PRACTICES

Investment Committee

The Investment Committee ("IC") is headed by the Chairman of the Board and comprises two Executive Directors and the CFO. The IC meets bi-monthly to review the performance of the Group's investments, potential acquisitions and disposals, funding requirements, key financial risks and strategic issues of each operating unit. The IC is vested with various levels of authority by the Board to carry out its duties.

Interested Person Transactions

The Group does not have any general mandate from shareholders pursuant to Rule 920 of the Listing Manual of the SGX-ST with regard to IPTs. The following are IPTs (save for those less than \$100,000 individually) that took place during FY 2017:

Name of interested person	Aggregate value of IPTs
UOL	\$219,000,000 in shares
UOL	\$31,656,000 in cash

During FY 2017, the Group entered into two separate transactions with UOL. The first was dated 22 June 2017, where the Group disposed of 60,000,000 shares in the capital of UIC in exchange for 27,272,727 shares in the capital of UOL. This was approved by the shareholders at the EGM dated 23 August 2017. The second transaction was dated 20 November 2017, where the Group disposed of 9,571,883 shares in the capital of UIC to UOL for a cash consideration of approximately \$31,656,000.

Material Contracts

Except as disclosed in the financial statements, there were no other material contracts entered into by the Company or its subsidiaries involving the interests of the CEO, any Director or controlling shareholder of the Company.

Dealings in Securities

The Group adopts best practices with respect to dealings in securities set out in Rule 1207(19) of the Listing Manual of the SGX-ST. It is in the process of reviewing the guidelines issued by SGX-ST on 5 December 2017 on preventing insider trading. It has a policy which prohibits its officers from dealing in the securities of the Company during the period commencing two weeks before the announcement of the financial results for each of the first three quarters and one month before the announcement of the full year results. The Company Secretary issues guidelines periodically to Directors and employees to remind them of the prohibitions in dealing with the Company's securities on short-term considerations or while in possession of material unpublished price-sensitive information, and to comply with the insider trading laws at all times. There are also internal policy/guidelines on confidentiality and safeguards for the handling of confidential information.