

# Corporate Governance Report

For the Financial Year Ended 31 December 2017

UOL Group Limited (the “Company”) is committed in its continuing efforts to achieve high standards of corporate governance and business conduct 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 set out in the Code of Corporate Governance issued by the Monetary Authority of Singapore on 2 May 2012 (the “Code”).

This corporate governance report sets out the corporate governance practices that have been adopted by the Company with reference to the principles and guidelines of the Code, as well as the explanation for any deviation from any guideline of the Code.

## STATEMENT OF COMPLIANCE

The Board of Directors (the “Board”) of the Company confirms that for the financial year ended 31 December 2017, the Company has generally adhered to the principles and guidelines as set out in the Code.

## BOARD MATTERS

### The Board’s Conduct of its Affairs

The principal responsibilities of the Board are to:

1. review the Company’s strategic business plans, taking into account sustainability and environmental issues;
2. review and approve the corporate policies, budgets and financial plans of the Company;
3. monitor financial performance including approval of the annual and interim financial reports;
4. establish a framework of good corporate governance, values and ethics to safeguard Shareholders’ interests and the Group’s assets;
5. oversee and review the processes for evaluating the adequacy and effectiveness of internal controls, risk management, financial reporting and compliance;
6. approve major funding proposals, investments, acquisitions and divestment proposals;
7. review management performance and the resources needed for the Company to meet its objectives; and
8. plan succession for the Board and key management personnel and the remuneration policies.

To facilitate effective oversight, certain functions of the Board have been delegated to various board committees, which review and make recommendations to the Board on specific areas. Notwithstanding the delegation, the Board remains ultimately responsible for all matters which have been reserved in its terms of reference. The management team (the “Management”) also has clear directions on the matters which must be approved by the Board. In this regard, the Board will review and approve all material transactions and matters, including without limitation any expenditure, budget and variance, investment, acquisition or disposal which exceed specified limits.

There are currently four standing Board Committees appointed by the Board, namely:

- Executive Committee
- Nominating Committee
- Remuneration Committee
- Audit and Risk Committee

The Board has conferred upon the Executive Committee (the “EXCO”) and the Group Chief Executive (“GCE”) certain discretionary limits and powers for capital expenditure, budgeting, treasury and investment activities. The levels of authorisation required for specified transactions are specified in the EXCO’s terms of reference adopted by the Board.

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The EXCO and the GCE are assisted by Management in the daily operations and administration of the business activities of the UOL group of companies (the “Group”) and the effective implementation of the operating expenditures and the Group’s strategies. The GCE in turn issues a chart of authority and limits for capital expenditure, budgets, investment and other activities for Management’s compliance.

In addition to the GCE, the key personnel leading the Management are the Deputy Group Chief Executive Officer (“Deputy Group CEO”), Chief Executive Officer (Hotels) (“CEO Hotels”) and Chief Financial Officer (“CFO”). The Deputy Group CEO, CEO Hotels and CFO have no familial relationship with each other, the Chairman or the GCE.

The EXCO currently comprises four members, namely:

- Wee Cho Yaw, Chairman
- Wee Ee Lim, Deputy Chairman
- Gwee Lian Kheng
- Low Weng Keong

The EXCO is chaired by the Chairman of the Board and has been given certain authority and functions such as the formulation and review of policies, approval of investments, overall planning and review of budgets, strategy as well as dealing with business of an urgent, important or extraordinary nature whilst the GCE is responsible for the day-to-day management, operations and administration of the Group.

The Directors discharge their duties and responsibilities in the interests of the Company. At Board meetings, the Directors not only review the financial performance of the Company, but also participate in detailed discussions of matters relating to corporate governance, business operations, risks as well as transactions undertaken by the Company.

The Board conducts regular scheduled meetings on a quarterly basis. Ad-hoc meetings are convened when circumstances require. The Company’s Constitution (“Constitution”) allows a board meeting to be conducted by way of telephonic and video-conferencing. The attendance of Directors at Board meetings and Board Committees, as well as the frequency of such meetings, is disclosed on page 55.

New Directors receive comprehensive induction on their joining the Board. They are provided with information on the corporate background, key personnel, core businesses, group structure, financial statements of the Group and their scope of duties and responsibilities. They are also briefed on the Group’s businesses and operations. All Directors are appointed to the Board by way of a formal letter of appointment. Guidance is also given to all Directors on regulatory requirements concerning disclosure of interests and restrictions on dealings in securities.

At the Company’s cost and through the Company Secretaries, training is made available to Directors on the Company’s business and governance practices, and updates/developments in the regulatory framework affecting the Company. Directors are provided with opportunities to attend courses and talks on Board matters organised by professional and reputable organisations including the Singapore Exchange Securities Trading Limited (“SGX-ST”) and the Singapore Institute of Directors. This aims to give Directors a better understanding of the corporate governance matters relating to the Group and allows them to integrate into their roles and duties. From time to time, the Company keeps the Directors apprised of any new laws, regulations, any latest changes to SGX-ST listing requirements or changes to legislations which may impact the Group’s business or business outlook, and changing risks affecting the Group. The external auditors would also brief and update Audit and Risk Committee Members on developments in accounting and governance standards and issues which have a direct impact on financial statements.

## **Board Composition and Guidance**

Currently, five of the nine-member Board are independent. Details relating to the review of independence of our Board is set out in the “Board Membership” section on pages 44 to 45.

With a majority of the Board comprising Independent Directors and such Independent Directors having the requisite experience, expertise and standing, the Board is able to exercise objective judgment independently from its 10% Shareholders and Management, and no individual or small group of individuals dominate the Board’s decision-making process.

The Constitution allows for a minimum of two Directors. The Board considers the current board size to be appropriate, taking into account the nature and scope of the Group’s businesses and operations.

The Board takes cognizance of the importance of diversity on the Board and conducts an annual review on its composition. The current Board comprises persons who possess diverse corporate experiences and as a group, provide an appropriate balance and diversity of skills, experience, qualifications, core competencies, and knowledge of the Company necessary to manage the Company and contribute effectively to the Company. The Board will continue to review its composition and diversity. Diversity factors (such as skills, experience, qualifications, core competencies, age, gender, race, culture) are considered when existing Directors are re-elected and when new Directors are appointed as part of the Board’s renewal process.

## **Chairman and GCE**

The Company has a separate Chairman and GCE as it believes that a distinctive separation of responsibilities between the Chairman and the GCE will ensure an appropriate balance of power, increased accountability and greater capacity of the Board for independent decision-making in the best interest of the Company and its Shareholders. The Chairman and the GCE have no familial relationship with each other.

The Chairman provides leadership to the Board and ensures that Board meetings are held as and when necessary. He sets the meeting agenda in consultation with the GCE and ensures that Directors are provided with accurate, timely and clear information. He further ensures that adequate time is provided for each agenda item included in the Board papers to be reviewed and debated at the Board meetings. Finally, the Chairman facilitates the communications between the Board and Management and between the Non-Independent and Independent Directors.

On the other hand, the GCE has the executive responsibility for the overall operations and administration of the Group.

While the Chairman is non-independent, the Company is of the view that it is not necessary to appoint a lead independent director as the Independent Directors are able to function effectively and provide objective feedback to the Chairman. The Company believes that there are sufficient channels of open communications and access to any of the Independent Directors by any Shareholder without the presence of the other Directors. Where necessary, the Independent Directors also have the discretion to meet without the presence of the other Directors and they are able to provide their feedback to the Chairman after such meetings. The Independent Directors chairing the Audit and Risk Committee, Nominating Committee and Remuneration Committee have sufficient standing and authority to look into any matter which the Chairman, the GCE or the CFO fails to resolve.

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## Board Membership

The Nominating Committee (“NC”) currently comprises three Non-Executive Directors of whom two are independent. The NC Members are:

- Low Weng Keong, Chairman
- Wee Cho Yaw
- Pongsak Hoontrakul

Based on its written terms of reference which set out clearly its authority and duties, the NC will make its recommendations to the Board on all board appointments, evaluate the performance of the Board and its committees, review the adequacy of the Board’s training and professional development programmes, and review the Board’s succession plans for Directors, in particular, for the Chairman and the GCE.

The independence of the Board is also reviewed annually by the NC. The NC has adopted the Code’s definition of what constitutes an independent director in its review. The Independent Non-Executive Directors are Low Weng Keong, Wee Sin Tho, Tan Tiong Cheng, Pongsak Hoontrakul and Poon Hon Thang Samuel. Each NC Member has abstained from deliberations in respect of his own assessment.

Tan Tiong Cheng is an adviser to Knight Frank Pte Ltd and president of Knight Frank Asia Pacific. He stepped down as chairman of Knight Frank Pte Ltd on 31 March 2017. The Group engages the Knight Frank group of companies to provide various real estate-related services, in respect of which the fees payable exceed \$200,000 in the financial year ended 31 December 2017. The NC regards Tan Tiong Cheng as an Independent Director because he is able to maintain his objectivity and independence at all times in the discharge of his duties as Director of the Company and the NC’s views were endorsed by the Board, with Tan Tiong Cheng abstaining. Tan Tiong Cheng has no influence or control over the Company or Management in the selection and appointment processes leading to the Knight Frank group companies being appointed to provide the said services.

For the financial year ended 31 December 2017, the effectiveness and independence of Low Weng Keong and Pongsak Hoontrakul who have served on the Board beyond nine years were subjected to particularly rigorous scrutiny. Despite their long period of service, the NC found and recommended to the Board that Low Weng Keong and Pongsak Hoontrakul have, at all times, expressed their individual viewpoints, objectively debated issues brought up at meetings of the Board and/or Board Committees and closely scrutinised Board matters and Board Committee matters. They had sought clarification and advice, as and when they considered necessary, from Management, other employees and external advisors, and exercised strong independence in character and impartial judgment whilst discharging their duties as a member of the Board and Board Committees. Both the Board and NC noted that Low Weng Keong and Pongsak Hoontrakul have made decisions objectively in the best interests of the Group and its stakeholders. The Board, having considered the NC’s recommendation and weighing the need for the Board’s refreshment against tenure and familiarity with the Group’s business and operations, deems Low Weng Keong and Pongsak Hoontrakul as independent and agrees that their years of service have not compromised their independence or ability to discharge their duties as a member to the Board and Board Committees. Low Weng Keong and Pongsak Hoontrakul have abstained from all deliberations by the NC and the Board regarding their independence.

In view of the above, the Independent Directors constitute a majority of the Board.

Where a Director has multiple board representations, the NC also considers whether or not the Director is able to and has adequately carried out his duties as a Director of the Company. Taking into account the Directors’ number of listed company board representations and other principal committees and the contributions made by the Directors, the NC is satisfied that the Directors have given sufficient time and attention to the affairs of the Company. The Board does not set any prescribed maximum number of listed company board representations which any Director may hold. It is restrictive and not practical to do so, given that the demands and commitments on the individual Director will vary for each Director and each Director will be best able to assess if he/she is able to discharge his/her duties as a Director of the Company effectively. It is also noted in this regard that none of the Directors has more than six listed company board representations.

The Company does not have any alternate Directors appointed to the Board.

The NC makes recommendations to the Board on all board appointments and re-appointments. Suitable candidates are identified through contacts and recommendations, and nominated for appointment through an objective and comprehensive selection process. Where necessary, external consultants may be engaged to assist in the search and selection process. In recommending to the Board any re-nomination and re-election of existing Directors, the NC takes into consideration the Directors' contribution and performance at Board meetings, including attendance, preparedness, participation and candour.

Article 94 of the Constitution also requires one-third of the Directors, or the number nearest to one-third, to retire from office by rotation at every Annual General Meeting ("AGM"). Pursuant to Article 95 of the Constitution, the Directors to retire in every year shall be those subject to retirement by rotation who have been longest in office since their last re-election or appointment and so that as between persons who became or were last re-elected Directors on the same day those to retire shall (unless they otherwise agree among themselves) be determined by lot. A retiring Director shall be eligible for re-election. The NC, with each member abstaining in respect of his own re-appointment and in accordance with the Company's Constitution, has recommended that Wee Cho Yaw, Tan Tiong Cheng and Wee Ee-chao, who retire by rotation pursuant to Article 94 and selected in accordance with Article 95, be nominated for re-election.

Key information regarding the Directors' academic qualifications and principal commitments are set out in the "Board of Directors" section on pages 18 to 22. In addition, information on shareholdings in the Company held by each Director is set out in the "Directors' Statement" section of the Annual Report.

Information relating to Directors who are nominated for re-appointment or re-election, including any relationships between such Directors, and the other Directors, the Company or its 10% Shareholders, are set out as notes accompanying the relevant resolutions.

### **Board Performance**

The NC has assessed, on an annual basis, the contributions of the Chairman and each Director to the effectiveness of the Board and evaluated the performance of the Board as a whole and its Board Committees. In evaluating the performance of the Board as a whole, the NC has adopted certain quantitative indicators which include return on equity, return on assets and the Company's share price performance. These performance criteria allow the Company to make comparisons with its industry peers and are linked to long-term shareholder value. For consistency in assessment, the selected performance criteria are not changed from year to year and where circumstances deem it necessary for any of the criteria to be changed, the NC, in its consultation with the Board, will justify such changes. In the assessment of the Board Committees, the NC considered, inter alia, the frequency of Board Committee meetings and the matters considered by the Board Committees, and in assessing the contributions of the Chairman and each Director to the effectiveness of the Board, the NC takes into account various factors including the size and composition of the Board, the conduct of the Board meetings, the Director's attendance at the Board and Board Committee meetings, the rigour of debate and discussion at the Board and Board Committee meetings, the knowledge, experience and inputs provided by each Director. The Chairman shall review the NC's evaluation and act, where appropriate and in consultation with the NC, propose new members to be appointed to the Board or seek the resignation of Directors.

### **Access to Information**

Currently, Directors receive regular financial and operational reports on the Group's businesses and briefings during its quarterly Board meetings. Management reports comparing actual performance with budget and highlighting key performance indicators, as well as accounts and reports on the financial performance of the Group are provided to Directors. Relevant Management staff make the appropriate presentations and answer any queries from Directors at Board meetings. Directors who require additional information may approach Management staff directly and independently. Directors have separate and independent access to the advice and services of the Company Secretaries and they may, either individually or as a group, in the furtherance of their duties and where necessary, obtain independent professional advice at the Company's expense. Such access to information is intended to enable the Directors to make informed decisions to discharge their duties and responsibilities.

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## Company Secretaries

Under the direction of the Chairman, both Company Secretaries are responsible for ensuring good information flow within the Board and Board Committees and between Management and Non-Executive Directors, advising the Board on all governance matters, facilitating the induction of new Directors and assisting with professional development as required. The Company Secretaries would, from time to time, circulate to the Board articles and press releases relevant to the Directors and the Group's business, and material announcements issued to/by SGX-ST and the Accounting & Corporate Regulatory Authority. The Company Secretaries keep the Board informed of relevant laws and regulations, industry issues, practices and trends pertaining to corporate governance affecting the Board and the Board Committees.

At least one of the Company Secretaries attends all Board and Board Committee meetings and ensures that all Board/Board Committee procedures are followed. The Company Secretaries, together with Management, ensure that the Company complies with all applicable statutory and regulatory rules. The minutes of all Board and Board Committee meetings are circulated to the Board. The appointment and removal of any Company Secretary is subject to the approval of the Board as a whole.

## REMUNERATION MATTERS

### Procedures for Developing Remuneration Policies

The Remuneration Committee ("RC") currently comprises three Non-Executive Directors of whom two are independent. The RC Members are:

- Wee Sin Tho, Chairman
- Wee Cho Yaw
- Low Weng Keong

The RC is currently chaired by an Independent Director. The RC's written terms of reference set out the role and responsibilities of the RC. The RC is responsible for ensuring a formal procedure for developing the policy on executive remuneration and for fixing the remuneration packages for Directors and key management personnel. The RC reviews and recommends for the Board's endorsement the specific remuneration package for each Director and the key management personnel which covers all aspects of remuneration, including without limitation, Directors' fees, salaries, allowances, bonuses, options and benefits-in-kind. The RC aims to be fair and avoids rewarding poor performance. It also administers the UOL 2012 Share Option Scheme and such other incentive schemes as may be approved by Shareholders from time to time. None of the RC Members is involved in the deliberation on any remuneration, compensation or form of benefit to be granted to himself.

The RC Members are familiar with executive remuneration/compensation matters as they manage their own businesses and/or are serving on the boards of other listed companies. The RC has access to appropriate expert advice where necessary. For the financial year ended 31 December 2017, no remuneration consultant was appointed to review the Directors' remuneration.

The RC has reviewed the Company's obligations arising in the event of termination of the Executive Director's and key management personnel's contracts of service and ensures that such contracts contain fair and reasonable termination clauses which are not overly generous.

## **Level and Mix of Remuneration**

In determining remuneration packages, the RC takes into consideration industry practices and norms in compensation and the need for remuneration to be linked with the long-term interest and risk policies of the Company. There are appropriate measures in place to assess the performance of the Executive Director and key management personnel.

In relation to Directors, the performance-linked elements of the remuneration packages for the Executive Director and key management personnel, which constitute a significant and appropriate proportion of the entire package, are designed to align their interests with those of Shareholders and the long-term success of the Company and take into account the risk policies of the Company. In this regard, the Executive Director and key management personnel are eligible for share options under the UOL 2012 Share Options Scheme and are encouraged to hold their shares beyond the vesting period, subject to the need to finance any cost of acquiring the shares and associated tax liability.

For Non-Executive Directors, their remuneration is appropriate to their level of contribution, taking into account factors such as effort and time spent as well as their respective responsibilities.

The Board recommends the fees to be paid to Directors for Shareholders' approval annually. The fees are divided on the basis that Directors with additional duties as members or chairmen of Board Committees would receive a higher portion of the total fees.

Gwee Lian Kheng, the only Executive Director of the Company, has an employment contract with the Company which may be terminated by either party giving three months' notice. His remuneration package includes a variable bonus element (which is substantially linked to the performance of the Company) and share options of the Company.

Currently, the Company does not have and does not deem it appropriate to have, any contractual provisions to allow the Company to reclaim incentive components of remuneration from the Executive Director and key management personnel in exceptional circumstances of misstatement of financial results, or of misconduct resulting in financial loss to the Company.

The RC reviews and makes recommendations to the Board in relation to Directors' fees and allowances. RC Members abstain from deliberations in respect of their remuneration.

The Company has disclosed the remuneration of the Directors in the Remuneration Report on page 56. Details of the share options granted to Gwee Lian Kheng, GCE and the only Executive Director, during the financial year ended 31 December 2017 are also disclosed on pages 56 and 57.

## **Disclosure on Remuneration**

In relation to employees of the Group, the remuneration policy of the Company seeks to align the interests of such employees with those of the Company as well as to ensure that remuneration is commercially attractive to attract, retain and motivate employees. The typical remuneration package comprises both fixed and variable components, with base salary making up the fixed component and the variable component in the form of a performance bonus and/or share options. In general, the Group sets and reviews the key performance indicators of our employees on an annual basis and remuneration package of each employee is dependent on achieving these annual targets. The key performance indicators of each employee varies in accordance with his designation and responsibilities within the Group. The report on the remuneration of the top five key management personnel (who are not Directors) of the Company is disclosed on pages 56 and 57.

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Details of the UOL 2000 and 2012 Share Option Schemes are disclosed on pages 85 to 87.

Save as disclosed on page 57, no employee who is an immediate family member of a Director or the GCE was paid more than \$50,000 during the year under review. "Immediate family member" means spouse, child, adopted child, step-child, brother, sister and parent.

## ACCOUNTABILITY AND AUDIT

### Accountability

The Company announces in advance when quarterly and annual financial results will be released and ensures the financial results are released to its Shareholders in a timely manner to provide Shareholders with an overview of the Company's performance, position and prospects. The Board also ensures that announcements relating to the Group's business are released in a timely manner in accordance with the listing rules of SGX-ST. The Board is also responsible for reports or confirmations provided to regulators at their requests.

The Board ensures that adequate steps are taken for compliance with legislative and regulatory requirements, including requirements under the listing rules of SGX-ST, by establishing written policies and procedures.

Management provides to members of the Board, for their endorsement, annual budgets and targets and management accounts on a regular basis and as and when the Board may require from time to time to enable the Board to make a balanced and informed assessment of the Company's performance, position and prospects.

## RISK MANAGEMENT AND INTERNAL CONTROLS

The Board is responsible for the governance of risk and it recognises the importance of a sound system of risk management and internal controls as part of good corporate governance. It has delegated the Audit and Risk Committee ("ARC") to assist the Board in the oversight of the risk management and internal control systems within the Group.

The ARC reviews and the Board endorses the Company's levels of risk tolerances and risk policies taking into account the Company's strategic and business objectives. The Board is responsible for ensuring that Management designs, implements and monitors the risk management and internal control systems to safeguard Shareholders' investments and the assets of the Group.

The Board has received assurances from the GCE and the CFO 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 on the effectiveness of the Company's risk management and internal control systems.

Based on the internal controls currently in place, the work undertaken by the internal and external auditors, the assurances from the GCE and the CFO as well as reviews by the ARC and the Board, the Board, with the concurrence of the ARC, is of the opinion that the Group's financial, operational, compliance and information technology controls are adequate and effective as at 31 December 2017.

The Board is also of the opinion that the Group's risk management and internal control systems provide reasonable but not absolute assurance that the Group will not be adversely affected by the occurrence of material errors, poor judgment in decision-making, human error, losses, fraud or other irregularities or other events arising from the business environment which the Group operates in.

## Risk Management

The Group has in place an enterprise-wide risk management (“ERM”) programme which has been implemented since 2009. The ERM Programme, which consolidates the Group’s risk management practices in an enterprise-wide framework, aims to increase the confidence in the Group’s strategies, businesses and operations, through assurance that key risks are properly and systematically managed. The ERM Programme would enable Management to have a formal structure to:

1. evaluate the risk appetite of the Group;
2. identify the key risks which the Group faces and the current controls and strategies for the Group to manage and/or mitigate these risks;
3. assess the effectiveness of the current controls and strategies and determine if further risk treatment plans are needed; and
4. set up and monitor key risk indicators (“KRIs”) so that Management can evaluate and respond to risks that have a material impact on the Group’s businesses and operations as and when they arise and take mitigating steps as necessary.

This ERM Programme is substantively in line with the best practices including those contained in the Risk Governance Guidance for Listed Boards (“Risk Governance Guide”). The Risk Governance Guide was released by the Corporate Governance Council on 10 May 2012 and sets out various guidelines and best practices for enterprise risk management.

Management reviews on a regular basis and is accountable for the key risks, both existing and emerging, the current controls and the KRIs and takes necessary measures to address and mitigate key risks. Management staff who are key risk and control owners review and provide assurances by way of sign-offs to the Group ERM Committee in respect of risks and controls under their charge or purview. The Group ERM Committee is chaired by the GCE and comprising senior management from both the property and hospitality businesses to oversee the direction, implementation and running of the ERM Programme. The Group ERM Committee reports to the ARC on a half-yearly basis or more frequently as needed on the status of the ERM Programme and the key risks and risk management controls and treatment plans. The Board also reviews annually the adequacy and effectiveness of the Company’s risk management and internal control systems.

Management is continually reinforcing the “risk-aware” culture within the Group and progressively cascading the ERM Programme down to all levels of the Group’s businesses and operations, including the various property and hotel operations in Singapore. Key management staff in both the property and hospitality businesses of the Group have actively participated in the ERM Programme, including regular training and workshops. They have acquired an adequate understanding of ERM concepts, methodologies and tools to enable them to manage risks in their respective areas of work.

The above measures help to ensure a cohesive and comprehensive ERM Programme which employees of the Group can collectively participate in and contribute to, so as to enhance the Group’s internal controls and enable the Group to remain sustainable in the long term.

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## Key Risks

The key risks identified from the ERM Programme can be broadly grouped as strategic/investment risks, financial risks, operational risks, compliance risks, and information technology risks.

### – *Strategic/Investment Risks*

The Group closely monitors developments and trends in the property and hospitality industries, and calibrates its strategies to achieve the Group's business objectives. In particular, risks associated with the Group's acquisitions, market conditions and competition are continually being monitored, analysed and managed.

The Board and the EXCO have overall responsibility for determining the level and type of business risk that the Group undertakes. The Group has a dedicated Investment Department that evaluates all new investment opportunities based on the criteria set out by the Board and the EXCO. All major investment proposals are submitted to the EXCO and the Board, as the case may be, for approval. Ongoing performance monitoring and asset management of new and existing investments are performed by the Group.

### – *Financial Risks*

The Group is exposed to a variety of financial risks, including interest rate, foreign currency, credit and liquidity risks. The management of financial risks is outlined under Note 35 of the Notes to the Financial Statements.

### – *Operational Risks*

The Group's development projects as well as investment and hotel properties are subject to operational risks that are common to the respective industries, and to the business environment of the countries in which the Group has presence in. The Group's operational risk framework, which is implemented at each operating unit, is designed to ensure that operational risks are continually identified, addressed and mitigated. With regard to development projects, it is recognised that risks can never be entirely eliminated and the Group must always weigh the cost and benefit in managing risks. The Group uses insurance as a tool to transfer and/or mitigate certain portions of risks, and maintains insurance covers at appropriate levels after taking into account the cost of cover and risk profiles of the businesses. Complementing Management's role is the Internal Audit function which provides an independent perspective on the controls that helps to mitigate major operational risks. Management reviews and implements further improvements to the current measures as and when any concern is identified.

### – *Compliance Risks*

The Group ensures compliance risks are adequately addressed as part of the enterprise risk management framework. The relevant policies and procedures are put in place to ensure compliance with the relevant laws and regulations in Singapore, including the SGX-ST listing requirements, as well as the laws and regulations of the jurisdictions where the Group operates in. Management is kept apprised of relevant changes to the law and regulations and takes adequate steps to ensure continuing compliance which is embedded in the day-to-day operations. In addition, the Company has in place a Code of Business Conduct which all employees are required to comply with.

### – *Information Technology ("IT") Risks*

IT being a business enabler has grown to become essential to the Group's operations and processes. Given the potential disruption to the Group's businesses during system down times, the management and maintenance of the Group's IT systems and software is critical. The Group implements adequate measures including the necessary back-up systems and equipment to safeguard any critical failure of its IT systems and conducts regular reviews and testing.

## AUDIT AND RISK COMMITTEE

The ARC comprises three members who have many years of recent and related accounting and financial management expertise and experience. All the ARC Members are Non-Executive Directors, and a majority of them (including the ARC Chairman) are independent. The ARC Members are:

- Low Weng Keong, Chairman
- Wee Ee Lim
- Tan Tiong Cheng

The ARC carries out the functions set out in the Code and the Companies Act. The written terms of reference include reviewing the financial statements and any announcements relating to the Company's financial performance, the internal and external audit plans and audit reports, the external auditors' evaluation of the system of internal accounting controls, the scope and results of the internal audit procedures, the cost-effectiveness, independence and objectivity of the external auditors, and interested person transactions. The ARC also reviews and reports to the Board annually on the adequacy and effectiveness of the Company's internal controls.

In performing the functions, the ARC has reviewed the Group's audited consolidated financial statements and discussed with Management and the external auditor the significant matters which involved judgement by the Management. The ARC reviewed, amongst other matters, the following key audit matters as reported by the external auditors for the financial year ended 31 December 2017:

| Significant matters  | How the ARC reviewed these matters   |
|--|--|
| Valuation of investment properties   | <p>The ARC reviewed the outcomes of the valuation process with Management, focusing on the methodologies and key underlying assumptions applied to the valuation models in assessing the fair value of the investment properties of the Group.</p> <p>The ARC also considered the findings of the external auditors in concluding that the valuation approaches were appropriate.</p>  |
| Valuation of development properties and revenue and cost of sales recognition from the sales of development properties | <p>The ARC reviewed the approach taken by the Management in determining whether any impairment charge should be recognised in the respective development properties, particularly how Management intended to sell the properties under prevailing market conditions and how total development costs were estimated.</p> <p>In addition, the ARC considered the use of the percentage of completion method in recognising revenue and profit for the sale of development properties and discussed with Management the justifications for adopting the various revenue and cost of sales assumptions for each project.</p> <p>The ARC also discussed with the external auditors the adequacy of any provision for foreseeable losses required and the bases in determining the profit recognised in respect of each project in the current year.</p> |
| Acquisition of shares in United Industrial Corporation Limited and purchase price allocation                           | <p>The ARC reviewed the approach on purchase price allocation ("PPA") and the key assumptions applied in arriving at the fair value of the assets acquired and liabilities assumed. In addition to the valuation reports issued by the various appointed valuers, the ARC also considered a PPA report issued by Ernst &amp; Young which was specially engaged to assist Management in the process including the determination of the respective fair values of development projects and previously unrecognised intangible assets, if any.</p> <p>The ARC also discussed with the external auditors the reasonableness of the key estimates and assumptions used in purchase price allocation and the accuracy of all material accounting entries in relation to the acquisition and the year-end consolidation.</p>                              |

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The ARC has also met with the internal and external auditors, without the presence of Management, at least annually and reviewed the overall scope of the internal and external audits and the assistance given by Management to the auditors.

The ARC has explicit authority to investigate any matter within its terms of reference. It has full access to, and the co-operation of Management, and full discretion to invite any Director or executive officer to attend its meetings. It has reasonable resources to enable it to discharge its functions properly.

PricewaterhouseCoopers LLP is the Company's current external auditor. In accordance with Rule 1207(6) of the SGX Listing Manual, details of the aggregate amount of fees paid to PricewaterhouseCoopers LLP and the breakdown of fees payable in respect of audit and non-audit services can be found under Note 5 of the Notes to the Financial Statements. Further to the above, the Company also complies with Rules 712 and 715 of the SGX Listing Manual.

The ARC has reviewed and is satisfied with the independence and objectivity of the external auditor and has approved the remuneration and terms of engagement of PricewaterhouseCoopers LLP. In its review, the ARC has taken into account the non-audit services provided by the external auditor and is of the opinion that these services do not affect the auditor's independence. It recommends to the Board the nomination of PricewaterhouseCoopers LLP for re-appointment by the Shareholders.

As stated above, the Company has in place the Code of Business Conduct which has been adopted since 2006. The Code of Business Conduct is disseminated to employees who are required to affirm their compliance with the said code annually.

In relation to the Code, a whistle-blowing policy (the "Whistle-Blowing Policy") has been put in place to encourage and provide a channel to employees and any other persons to report, in good faith and in confidence, concerns about possible fraud, improprieties in financial reporting or other matters. The objective of such an arrangement is to ensure independent investigation of such matters and for appropriate follow-up action. The Company has disclosed in its corporate website (<http://www.uol.com.sg>) the contact details of the Deputy General Manager (Group Internal Audit) so that employees and any other persons may report their concerns to him under the Whistle-Blowing Policy. The Deputy General Manager (Group Internal Audit) will be responsible for investigating any concerns raised and he reports his findings to the ARC independent of Management. The ARC is able to act independently to take such action as may be necessary to address the concerns raised and has the authority to instruct any senior Management staff to assist or co-operate in such action.

In addition, the ARC is also responsible for assisting the Board in terms of the oversight of the risk management and internal control systems within the Group (see Risk Management and Internal Controls above).

## **Internal Audit**

The Deputy General Manager (Group Internal Audit) reports directly to the ARC and administratively to the GCE. The Internal Audit Department aims to meet or exceed the Standards for the Professional Practice of Internal Auditing set by the Institute of Internal Auditors. As part of its audit activities, the Internal Audit Department reviews all interested party transactions and ensure that the necessary controls are in place and are complied with. The Internal Audit Department conducted its audit reviews based on the approved internal audit plans and its audit reports containing findings and recommendations are provided to Management for their responses and follow-up action.

The Internal Audit function is adequately resourced, comprises persons with relevant qualifications and experience and has appropriate standing within the Group. The Deputy General Manager (Group Internal Audit), who joined the Group in October 1997, holds a Bachelor of Accountancy (Honours) Degree from the Nanyang Technological University. He is also a fellow of the Institute of Singapore Chartered Accountants and a member of the Institute of Internal Auditors (Singapore).

The ARC has reviewed and is satisfied with the adequacy and effectiveness of the Internal Audit function.

## **SHAREHOLDER RIGHTS AND RESPONSIBILITIES**

### **Shareholder Rights**

The Company makes timely disclosures to Shareholders via SGXNET on the SGX-ST in accordance with the SGX-ST listing requirements on any changes in the Company or its business which would likely materially affect the price or value of the Company's shares.

Shareholders have the opportunity to participate effectively in and vote at the general meetings of Shareholders and may appoint up to two proxies, under the Constitution, to attend and vote on their behalf. Shareholders, who hold shares in the Company through corporations which provide nominee/custodial services and who provide satisfactory evidence of their share ownership, are allowed to attend and vote at the general meetings of Shareholders. The Company allows such corporations to appoint more than two proxies following revisions to the Companies Act.

At the general meetings, Shareholders are briefed on the poll voting procedures and the resolutions that they are voting on. For greater transparency and efficiency, Shareholders vote using an electronic polling system and will continue to do so for the upcoming general meeting. Notices of general meetings of Shareholders are issued within the periods prescribed under the SGX Listing Manual.

# Corporate Governance Report

For the Financial Year Ended 31 December 2017

## COMMUNICATION WITH SHAREHOLDERS

The Group engages in regular, effective and fair communication with its Shareholders through the quarterly release of the Group's results, the timely release of material information through SGXNET of SGX-ST and the publication of the Annual Report. Announcements of the Group's results are released and annual reports are issued within the periods prescribed under the SGX Listing Manual. Shareholders and investors can also access information on the Company at its website at [www.uol.com.sg](http://www.uol.com.sg) which is updated regularly, and subscribe to email alerts made available on the Company's website for latest updates from the Company.

Further, the Company's Investor Relations team engages the investment community through regular dialogues and analysts' briefings and the team participates in investor seminars and conferences to keep the market and investors apprised of the Group's corporate development and financial performances as well as to solicit and understand the views of Shareholders.

### Conduct of Shareholder Meetings

The Company encourages greater shareholder participation at its AGMs and allows Shareholders the opportunity to communicate their views on various matters affecting the Company. The notices of general meetings setting out the agenda are despatched to the Shareholders with the annual reports, explanatory notes and if necessary, letters to shareholders on the items of special businesses, at least 14 days before general meetings are called to pass ordinary resolutions or 21 days before general meetings are called to pass special resolutions.

A Shareholder of the Company may appoint up to two proxies to attend and vote in his/her place at general meetings. Barring unforeseen circumstances, all Directors and in particular, the Chairpersons of the EXCO, NC, RC and ARC, as well as senior management personnel will be available to address questions at general meetings. The external auditors are also present to address any Shareholders' query on the conduct of audit and the preparation of the Auditors' Report. At least one of the Company Secretaries attends all Shareholders' meetings to ensure that procedures under the Constitution and the SGX Listing Manual are followed. The Company Secretaries prepare the minutes of the general meetings and include all substantial and relevant comments or queries from Shareholders relating to the agenda of the meeting, and responses from the Board and Management. The minutes of the general meetings, when available, may be provided to Shareholders on reasonable request. Results of the general meetings are also released as an announcement via SGXNET.

The Code recommends that there should be separate resolutions at general meetings on each substantially separate issue and the Company uses its best endeavours to comply with this recommendation. In the event that there are resolutions which are interlinked, the Board will explain the reasons and material implications.

For greater corporate transparency, the Company has implemented electronic poll voting since 2012. Under this approach, each Shareholder would vote on each of the resolutions by poll, instead of by hand, thereby enabling the Shareholders and proxies present at the AGM to vote on a one-share, one-vote basis. The results of the voting for each resolution were broadcast at the AGM and announced on SGXNET after the AGM. The Company intends to continue with electronic poll voting for the forthcoming AGM.

In line with maintaining communication with Shareholders, as and when briefings on the Company's performance and financial results are conducted for analysts and the media, the Company will disclose the presentation materials on SGXNET.

## Dividend Policy

The Company does not have a formal dividend policy. Historically, the Company has, for the last five years, declared dividends at the rate of approximately 20-50% of the profit after tax and minority interest and excluding fair value gains and other non-cash exceptional gains. Barring any unforeseen circumstances, the Company will endeavour to declare dividends at sustainable rates. The payment of dividends are communicated to Shareholders in announcements released through SGXNET. The Board is recommending the declaration and payment of a first and final tax exempt (one-tier) dividend of 17.5 cents per ordinary share for the financial year ended 31 December 2017 at the forthcoming AGM.

## DEALINGS IN SECURITIES

Pursuant to Listing Rule 1207(19) on Dealings in Securities, the Company issues circulars, memorandums, notifications and updates, on a regular basis and as-and-when required, to its Directors and employees to prohibit the dealing in listed securities of the Company in the following periods:

1. from two weeks to one month, as the case may be, before the announcement of the Group's quarterly and full-year financial results and ending on the date of announcement of the results; or
2. at any time when they are in possession of unpublished material price sensitive information.

The Company also issues announcements at least two weeks and one month before announcing the Group's quarterly and full-year financial results respectively to provide notice of when such financial results will be released.

Directors and employees are required to comply with and observe the laws on insider trading even if they trade in the Company's securities outside the prohibited periods. They are discouraged from dealing in the Company's securities on short-term considerations and are reminded of the law on insider trading.

## ATTENDANCE AT BOARD AND BOARD COMMITTEE MEETINGS

| NAME OF DIRECTOR                | Number of meetings attended in 2017 |     |       |      |     |    |    |      |
|---------------------------------|-------------------------------------|-----|-------|------|-----|----|----|------|
|                                 | AGM                                 | EGM | BOARD | EXCO | ARC | RC | NC | IBC* |
| Wee Cho Yaw                     | 1                                   | 1   | 4     | 3    | NA  | 1  | 1  | NA   |
| Wee Ee Lim                      | 1                                   | 1   | 4     | 3    | 5   | NA | NA | NA   |
| Gwee Lian Kheng                 | 1                                   | 1   | 4     | 3    | NA  | NA | NA | 4    |
| Low Weng Keong                  | 1                                   | 1   | 4     | 2    | 6   | 1  | 1  | 4    |
| Wee Sin Tho                     | 1                                   | 1   | 4     | NA   | NA  | 1  | NA | NA   |
| Tan Tiong Cheng                 | 1                                   | 1   | 4     | NA   | 5   | NA | NA | 3    |
| Wee Ee-chao                     | 1                                   | 0   | 3     | NA   | NA  | NA | NA | NA   |
| Pongsak Hoontrakul              | 1                                   | 1   | 4     | NA   | NA  | NA | 1  | NA   |
| Poon Hon Thang Samuel           | 1                                   | 1   | 4     | NA   | NA  | NA | NA | 4    |
| Number of meetings held in 2017 | 1                                   | 1   | 4     | 3    | 6   | 1  | 1  | 4    |

### Notes:

\* On 12 May 2017, the Company formed an independent board committee ("IBC") comprising Low Weng Keong (Chairman), Gwee Lian Kheng, Tan Tiong Cheng and Poon Hon Thang Samuel to evaluate, negotiate and agree on the terms in respect of the option agreement with Haw Par Corporation Limited ("Haw Par"), pursuant to which (i) Haw Par granted the Company a call option over 60,000,000 ordinary shares (the "UIC Shares") in the capital of United Industrial Corporation Limited ("UIC" and such UIC Shares, the "UIC Sale Shares") held by Straits Maritime Leasing Private Limited, a wholly-owned subsidiary of Haw Par, and (ii) the Company granted Haw Par a put option over the UIC Sale Shares (the sale and purchase of the UIC Sale Shares, being the "Proposed Transaction"). IBC was dissolved upon the completion of the Proposed Transaction.

# Corporate Governance Report

For the Financial Year Ended 31 December 2017

## REMUNERATION REPORT

The following table shows a breakdown (in percentage terms) of the remuneration of and details of share options granted to Directors and key management for the year ended 31 December 2017:

| Name | Total remuneration \$'000 | Salary % | Bonuses % | Directors' fees <sup>1</sup> % | Share option grants <sup>2</sup> % | Defined contribution plans % | Others % | Total remuneration % | Share options granted <sup>3</sup> number |
|------|---------------------------|----------|-----------|--------------------------------|------------------------------------|------------------------------|----------|----------------------|---|
|------|---------------------------|----------|-----------|--------------------------------|------------------------------------|------------------------------|----------|----------------------|---|

### REMUNERATION OF DIRECTORS

|                       |       |    |    |     |   |   |   |     |         |
|-----------------------|-------|----|----|-----|---|---|---|-----|---------|
| Wee Cho Yaw           | 154   | –  | –  | 100 | – | – | – | 100 | –       |
| Wee Ee Lim            | 107   | –  | –  | 100 | – | – | – | 100 | –       |
| Gwee Lian Kheng       | 2,489 | 32 | 56 | 3   | 5 | – | 4 | 100 | 120,000 |
| Low Weng Keong        | 142   | –  | –  | 100 | – | – | – | 100 | –       |
| Wee Sin Tho           | 75    | –  | –  | 100 | – | – | – | 100 | –       |
| Tan Tiong Cheng       | 75    | –  | –  | 100 | – | – | – | 100 | –       |
| Wee Ee-chao           | 50    | –  | –  | 100 | – | – | – | 100 | –       |
| Pongsak Hoontrakul    | 63    | –  | –  | 100 | – | – | – | 100 | –       |
| Poon Hon Thang Samuel | 50    | –  | –  | 100 | – | – | – | 100 | –       |

| Name | Salary % | Bonuses % | Directors' fees <sup>1</sup> % | Share option grants <sup>2</sup> % | Defined contribution plans % | Others % | Total remuneration % | Share options granted <sup>3</sup> number |
|------|----------|-----------|--------------------------------|------------------------------------|------------------------------|----------|----------------------|---|
|------|----------|-----------|--------------------------------|------------------------------------|------------------------------|----------|----------------------|---|

### REMUNERATION OF KEY MANAGEMENT PERSONNEL

#### \$1,250,000 to \$1,500,000

|  |    |    |   |   |   |   |     |        |
|--|----|----|---|---|---|---|-----|--------|
| <b>Liam Wee Sin</b><br><i>Deputy Group Chief Executive Officer</i> | 37 | 48 | 2 | 5 | 1 | 7 | 100 | 60,000 |
|--|----|----|---|---|---|---|-----|--------|

#### \$750,000 to \$1,000,000

|   |    |    |   |   |   |    |     |   |
|---|----|----|---|---|---|----|-----|---|
| <b>Lothar Wilhelm Nessmann<sup>4</sup></b><br><i>Chief Executive Officer (Hotels), PPHG</i> | 60 | 16 | – | – | 6 | 18 | 100 | – |
|---|----|----|---|---|---|----|-----|---|

#### \$500,000 to \$750,000

|   |    |    |   |   |   |    |     |        |
|---|----|----|---|---|---|----|-----|--------|
| <b>Foo Thiam Fong Wellington</b><br><i>Chief Financial Officer/Group Company Secretary, UOL</i> | 56 | 22 | 4 | 9 | 1 | 8  | 100 | 54,000 |
| <b>Neo Soon Hup</b><br><i>Chief Financial Officer, PPHG</i>                                     | 67 | 17 | 4 | 6 | 3 | 3  | 100 | 32,000 |
| <b>Erik Anderouard<sup>5</sup></b><br><i>Senior Vice President, (Operations), PPHG</i>          | 62 | 7  | – | 3 | 6 | 22 | 100 | 21,000 |

#### Notes:

- Directors' fees are subject to approval by the Shareholders at the relevant annual general meetings and include fees payable by subsidiaries.
- Fair value of share options is estimated using the Trinomial Tree model at the date of grant.
- Refers to options granted on 10 March 2017 under the UOL 2012 Share Option Scheme to subscribe for ordinary shares in the capital of the Company. The options may be exercised at any time during the option period from 10 March 2018 to 9 March 2027 at the offer price of \$6.61 per ordinary share.
- Joined on 1 March 2017.
- Resigned on 10 April 2018.

Total remuneration paid to the top five key management personnel set out above amounted to \$4,347,000 for the year ended 31 December 2017.

Mr Gwee Lian Kheng, an Executive Director of the Company, has an employment contract with the Company which may be terminated by either party giving three months' notice. His remuneration package includes a variable bonus element (which is substantially linked to the performance of the Company) and grant of share options of the Company.

Details of the UOL 2012 Share Option Scheme can be found under the "Directors' Statement" section of the Annual Report.

### **Remuneration of immediate family members of Directors**

The remuneration of employees who are immediate family members of Directors is as follows:

(a) Remuneration band of \$450,000 to \$500,000

- Wee Wei Ling (Executive Director (Asset & Lifestyle), PPHG, daughter of Dr Wee Cho Yaw and sister of Mr Wee Ee-chao and Mr Wee Ee Lim)

(b) Remuneration band of \$150,000 to \$200,000

- Jonathan Eu (Deputy General Manager (Investment), UOL, grandson of Dr Wee Cho Yaw)

(c) Remuneration band of \$100,000 to \$150,000

- Gwee Lian Chok (Senior SAP Data Administrator, UOL, brother of Mr Gwee Lian Kheng)

Except as disclosed above, there were no employees of the Company and its subsidiaries who are immediate family members of Directors or the CEO and whose remuneration exceeded \$50,000 during the financial year ended 31 December 2017.