

CORPORATE GOVERNANCE

First Sponsor Group Limited (“**Company**”, and together with its subsidiaries, “**Group**”) is committed to adopting and maintaining high standards of corporate governance to protect its shareholders’ interests. The board of directors of the Company (“**Board**”) and management believe that good corporate governance is essential to the sustainability of the Group’s business and performance.

The Group is pleased to confirm that it has complied in all material respects with the principles, guidelines and recommendations in the Code of Corporate Governance 2012 (“**Code**”) in the financial year ended 31 December 2018 (“**FY2018**”). Where there are deviations from any of the guidelines, an explanation has been provided within this report.

A. BOARD MATTERS

Principle 1: THE BOARD’S CONDUCT OF AFFAIRS

Every company should be headed by an effective Board to lead and control the company. The Board is collectively responsible for the long-term success of the company. The Board works with Management to achieve this objective and Management remains accountable to the Board.

The Board is entrusted with the responsibility for the overall management of the Group. It comprises the following six members, three of whom are Independent Directors:

Mr Ho Han Leong Calvin	(Non-Executive Chairman)
Mr Ho Han Khoon	(Alternate Director to the Non-Executive Chairman)
Mr Kingston Kwek Eik Huih (Appointed on 5 March 2019)	(Non-Executive Director)
Mr Neo Teck Pheng	(Group Chief Executive Officer and Executive Director)
Ms Ting Ping Ee, Joan Maria	(Independent Director)
Mr Yee Chia Hsing	(Lead Independent Director)
Mr Wee Guan Oei Desmond	(Independent Director)

The profile of each member of the Board is provided on pages 17 and 18 of this Annual Report.

Board’s Duties and Responsibilities

The Board oversees the strategic direction, performance and affairs of the Group and provides overall guidance to management.

The duties and responsibilities of the Board include:

- (a) approving the strategic direction of the Group and monitoring its progress;
- (b) approving the financial plan (including annual budgets) and monitoring the financial performance of the Group;
- (c) reviewing the adequacy and effectiveness of the Group’s risk management and internal controls framework in relation to financial, operational, compliance and information technology controls, and safeguarding shareholders’ interests and the Group’s assets;
- (d) deliberating on and accepting recommendations by the Audit Committee (“**AC**”), the Remuneration Committee (“**RC**”) and the Nominating Committee (“**NC**”); and
- (e) considering sustainability issues such as environmental and social factors as part of the Group’s strategic formulation.

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Matters requiring the Board's decision and approval include:

- (a) quarterly financial results announcements and annual audited financial statements;
- (b) appointment of directors and key management staff, including review of their performance and remuneration packages;
- (c) corporate or financial restructuring, major acquisitions and divestments;
- (d) share issuances and funding proposals;
- (e) interested person transactions; and
- (f) declarations of interim dividends, proposals of final dividends and other returns to shareholders.

To facilitate effective management, the Board has granted management mandates to carry out transactions below certain thresholds. The Independent Directors and Non-Executive Directors are always available to provide guidance to management on business issues and in areas in which they specialise.

Board Committees

All Directors are expected to objectively discharge their duties and responsibilities at all times as fiduciaries in the interests of the Group. However, to ensure that specific issues are subject to in-depth and timely review, certain functions have been delegated to Board committees. The Board has established three Board committees, namely (1) the AC; (2) the RC; and (3) the NC, which are chaired by Mr Yee Chia Hsing, Mr Wee Guan Oei Desmond and Ms Ting Ping Ee, Joan Maria respectively. Each of these Board committees operates under delegated authority from the Board with the Board retaining overall oversight and has its own written terms of reference. The establishment of the AC, RC and NC is consistent with the recommendations in the Code. The duties and responsibilities of the above Board committees are set out in this report.

The Board regularly undertakes a review of its Board committees including their membership and terms of reference. The last review was undertaken in FY2018. In FY2018, the Board approved amendments to the terms of reference of the AC to take into account the recent revisions of the Code and certain amendments to the SGX-ST Listing Manual consequential to such revisions.

Meetings of Board and Board Committees

The Board meets on a quarterly basis to review, *inter alia*, the Group's quarterly results. Additional meetings may be convened on an ad-hoc basis as and when necessary. Where exigencies prevent a Director from attending a Board meeting in person, the Company's Articles of Association permit the Director to participate via teleconferencing or video conferencing. The Board and Board committees may also make decisions by way of resolutions in writing. Except where a Director is required to abstain from participating in the deliberation on a transaction or proposed transaction due to a potential conflict of interest situation, in each meeting where matters requiring the Board's approval are to be considered, all members of the Board participate in the discussions and deliberations; and resolutions in writing are circulated to all Directors for their consideration and approval. This principle of collective decisions adopted by the Board ensures that no individual influences or dominates the decision-making process.

In FY2018, the Board held four meetings and on numerous occasions used circular resolutions in writing to approve certain decisions. The Directors' attendance at the annual general meeting of the Company ("**AGM**"), and Board and Board committee meetings as well as the frequency of such meetings held in FY2018 are as follows:

	Board	AC	NC	RC	AGM
Number of meetings held in FY2018	4	4	1	1	1
Name of Directors	Number of meetings attended in FY2018				
Mr Ho Han Leong Calvin	4	–	NA	–	1
Mr Ho Han Khoon (Alternate Director to Mr Ho Han Leong Calvin)	4	4	NA	1	1
Mr Tan Kian Seng*	2	NA	NA	NA	1
Mr Neo Teck Pheng	4	NA	1	NA	1
Ms Ting Ping Ee, Joan Maria	4	4	1	1	1
Mr Yee Chia Hsing	4	4	1	NA	1
Mr Wee Guan Oei Desmond	4	NA	NA	1	1

Note:

* Mr Tan Kian Seng resigned as Non-Executive Director of the Company on 5 March 2019. He was replaced by Mr Kingston Kwek Eik Huih who was appointed on the same date.

Directors' Development

All Directors are provided with relevant information on the Company's policies, procedures and practices relating to governance issues, including disclosure of interests in securities, restrictions on disclosure of price sensitive information and disclosure of interests relating to the Group's businesses.

The Directors are provided with updates and/or briefings relating to developments relevant to the Group including changes in regulatory requirements, corporate governance and accounting standards. Such updates are given at Board meetings and where necessary also via presentations by external regulatory bodies, the Company's external professionals, auditors and management. The Directors are at liberty to request further explanations, briefings or informal discussions on any aspect of the Group's operations or business issues from management. The Company funds the training of its Directors where applicable.

In addition, all newly appointed Directors would be provided with background information about the Group's history and core values, its strategic direction and industry specific knowledge. For any newly appointed Directors who have no prior experience as a director of a listed company, directorship courses from the Singapore Institute of Directors and training in relevant areas such as finance and compliance, as well as industry-related areas would be provided if required. The terms of reference of all Board committees would also be provided to each newly appointed Director.

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Principle 2: BOARD COMPOSITION AND GUIDANCE

There should be a strong and independent element on the Board, which is able to exercise objective judgement on corporate affairs independently, in particular, from Management and 10% shareholders. No individual or small group of individuals should be allowed to dominate the Board's decision making.

The Board, through the NC, reviews from time to time the size and composition of the Board, with a view to ensuring that the size of the Board is appropriate in facilitating effective decision-making taking into account the scope and nature of the Group's operations, and that the Board has a strong independent element.

The Board consists of six Directors of whom three are Independent Directors, two are Non-Executive Directors and one is an Executive Director.

The Company recognises and embraces the benefits of diversity on the Board and views diversity at the Board level as an essential element in supporting the attainment of its strategic objectives and its sustainable development. The Board comprises business leaders and professionals with real estate, hospitality, banking, financial (including audit and accounting), legal, risk management and business management backgrounds. The Board currently includes one female member, Directors with ages ranging from their 30s to 60s, who have served on the Board for different tenures. The profile of each member of the Board is provided on pages 17 and 18 of this Annual Report. The Board and the NC are of the view that the current composition of the Board encompasses an appropriate balance and diversity of skills, experience, knowledge and competencies.

The Board and the NC are satisfied that the Board's size and composition are appropriate for the Company's needs taking into account the scope and nature of the operations of the Group, the requirements of the business and the need to avoid undue disruptions from changes to the composition of the Board and Board committees.

The Board, taking into account the views of the NC, assesses the independence of each Director in accordance with the guidance in the Code.

None of the Independent Directors has any relationship with the Company, its related corporations, shareholders who have an interest or interests in 10% or more of the voting shares in the Company or its officers that could interfere, or be reasonably perceived to interfere, with the exercise of the Director's independent business judgement. No individual or group of individuals dominates the Board's decision making.

The Chairman of the Company is not an Independent Director. The Independent Directors constitute half of the Board, which complies with the recommendations in the Code. This provides a strong and independent element for the Board.

The Non-Executive Directors and Independent Directors participate actively in the meetings of the Board. They provide strategic guidance to the Company based on their professional knowledge, in particular, assisting to constructively develop proposals on strategy. They also review and monitor management's performance. To facilitate this, they are kept informed of the Company's businesses and performances through regular reporting from management, and have unrestricted access to management. The Non-Executive and Independent Directors would also confer among themselves without the presence of management as and when the need should arise.

All Directors are obliged to act honestly and with due diligence, and in the best interests of the Company. Directors, who are in any way, directly or indirectly, interested in a transaction or proposed transaction, will declare the nature of their interests, and also abstain from participating in the deliberation of the Board and/or the committees on such transactions, with abstention duly recorded within the minutes and/or the resolutions of the Board and/or the committees.

Principle 3: CHAIRMAN AND THE CHIEF EXECUTIVE OFFICER

There should be a clear division of responsibilities between the leadership of the Board and the executives responsible for managing the company's business. No one individual should represent a considerable concentration of power.

The roles and responsibilities of the Non-Executive Chairman and the Group Chief Executive Officer are held by separate individuals.

The Non-Executive Chairman, Mr Ho Han Leong Calvin, is responsible for the workings of the Board. He leads all the board meetings and ensures that meetings are held on a timely basis to deliberate or approve matters which require the Board's attention. He is also responsible for promoting and maintaining high standards of corporate governance, ensures effective communication with shareholders and facilitates effective contributions from the Non-Executive Directors and Independent Directors. The Group Chief Executive Officer, Mr Neo Teck Pheng, is the most senior executive in the Company and has overall responsibility for management, operations and growth of the Group's businesses.

The Non-Executive Chairman and the Group Chief Executive Officer are not immediate family members. The separation of the roles of Non-Executive Chairman and Group Chief Executive Officer and the resulting clarity of roles provide a healthy professional relationship between the Board and management, and facilitate robust deliberations on the Group's business activities and the exchange of ideas and views to help shape the strategic process.

The Board appointed Mr Yee Chia Hsing as the Lead Independent Director of the Company, who will be available to shareholders who have concerns and for which contact through the normal channels of Chairman, the Group Chief Executive Officer or the Group Chief Financial Officer has failed to resolve or is inappropriate.

The Lead Independent Director will meet the Independent Directors of the Company without the presence of the other Directors as and when required, with feedback given to the Non-Executive Chairman after such meetings.

The Board is of the view that there are sufficient safeguards and checks to ensure that the process of decision-making by the Board is independent. The Board has no dissenting view on the Chairman's statement to the shareholders for FY2018.

Principle 4: BOARD MEMBERSHIP

There should be a formal and transparent process for the appointment and reappointment of directors to the Board.

The Board has established the NC, which makes recommendations to the Board on all appointments to the Board and Board committees.

The NC comprises the following three members, majority of whom, including the Chairman of the NC, are Independent Non-Executive Directors:

Ms Ting Ping Ee, Joan Maria (Independent Director)	(Chairman)
Mr Yee Chia Hsing (Lead Independent Director)	(Member)
Mr Neo Teck Pheng (Group Chief Executive Officer)	(Member)

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Under its terms of reference, the NC's scope of duties and responsibilities is as follows:

- (a) reviewing and assessing the appointment of any proposed new Directors (including alternate Directors if applicable) before recommending the proposed new Directors for approval by the Board;
- (b) reviewing and recommending to the Board the re-election and re-appointment of any Directors (including alternate Directors if applicable) who are retiring by rotation or appointed during the year at the next AGM. The Articles of Association of the Company requires all Directors to submit themselves for re-nomination and re-election at least every three years;
- (c) reviewing the effectiveness of the Board annually;
- (d) reviewing annually whether the size and composition of the Board is appropriate to ensure that the Board has an appropriate balance of expertise, skills, attributes and abilities;
- (e) reviewing and determining annually, and as and when circumstances require, if a Director is independent;
- (f) reviewing and determining whether the Director is able to and has been adequately carrying out his duties as Director where a Director has multiple board representations, taking into consideration other board representations and principal commitments;
- (g) reviewing succession plans for Directors and senior management and recommending to the Board for approval;
- (h) reviewing and recommending to the Board the employment of related persons and their proposed terms of employment;
- (i) reviewing that no individual member of the Board dominates the Board's decision making process; and
- (j) reviewing training and professional development programs for the Board.

The evaluation of appointment and re-appointment of a Director takes into consideration, among others, the composition and progressive renewal of the Board and each Director's competencies, commitment, contribution and performance.

The Company has in place a process for selecting and appointing new Directors. This process includes, *inter alia*, an evaluation of the candidate's capabilities by taking into consideration diversity of skills, experience, background, gender, age, ethnicity and other relevant factors and how the candidate fits into the overall desired competency matrix of the Board. The NC may refer to both internal sources as well as external sources to draw up a list of potential candidates. Short-listed candidates would be required to furnish their curriculum vitae stating in detail their qualification, working experience, employment history to enable the NC to assess the candidate's independence status and compliance with the Company's established internal guidelines.

As Mr Tan Kian Seng wishes to devote more time to his work commitments with Millennium & Copthorne Hotels plc ("**M&C**"), the Chairman of M&C has nominated and the M&C Board has consented to the nomination of Mr Kingston Kwek Eik Huih as Non-Executive Director of the Company. The NC has reviewed the professional qualifications and experience of Mr Kingston Kwek Eik Huih and made a recommendation to the Board for the approval of his appointment.

The NC reviewed the independence of Ms Ting Ping Ee, Joan Maria, Mr Yee Chia Hsing and Mr Wee Guan Oei Desmond and is satisfied that there are no relationships which would deem any of them not to be independent. The NC, in its deliberation as to the independence of a Director, took into account examples of relationships as set out in the Code, considered whether a Director had business relationships with the Group, and if so, whether such relationships could interfere, or be reasonably perceived to interfere, with the exercise of the Director's independent judgements. As of the date of this report, there is no Independent Director who has been appointed for more than nine years from the date of his/her first appointment. The above is in line with the guidelines in the Code.

Guideline 4.4 of the Code recommends that the Board determines the maximum number of listed company board representations which any director may hold, and discloses this in the Annual Report. In view of the responsibilities of a director, the Board is cognisant of the need for Directors to be able to devote sufficient time and attention to adequately perform their roles. However, the Board has not imposed any limit as it has taken the view that the limit on the number of listed company directorships that an individual may hold should be considered on a case-by-case basis, as a person's available time and attention may be affected by many different factors, such as whether he or she is in full-time employment and the nature of his or her other responsibilities. All Directors are required to confirm on an annual basis, and for FY2018, have confirmed that they were able to devote sufficient time and attention to their duties as Directors. The NC is satisfied that the Directors have devoted sufficient time and attention to the Company. Although some Board members have multiple board representations, the Board experienced minimal competing time commitments among its members as Board meetings are planned and scheduled well in advance of the meeting dates.

The Articles of Association of the Company requires each Director to retire at least once every three years and subject himself/herself to re-election by shareholders. In addition, any Director appointed by the Board shall retire at the next AGM and shall then be eligible for re-election at that meeting. With regard to the re-election of existing Directors each year, the NC advises the Board of those Directors who are retiring or due for consideration to retire in accordance with the Articles of Association, and makes recommendations to the Board as to whether the Board should support the re-election of a Director who is retiring. In making recommendations, the NC will undertake a process of review of the retiring Director's performance during the period in which he has been a member of the board. Each member of the NC will abstain from deliberations on his or her own re-election. Mr Kingston Kwek Eik Huih is subject to retirement at the forthcoming AGM pursuant to the Articles of Association of the Company. The NC has assessed and recommended his re-election during the NC meeting held in February 2019. The Board has concurred with the NC to recommend the re-election of Mr Kingston Kwek Eik Huih who has offered himself for re-election as Director by shareholders at the forthcoming AGM.

The Board believes in carrying out succession planning for itself and the Board Chairman to ensure continuity of leadership. Board renewal is a continuing process and in this regard, the NC reviews annually the composition of the Board and Board committees, which includes size and mix, and recommends to the Board the selection and appointment of new Directors, whether in addition to the existing Board members or as replacement of retiring Board members, with a view to identifying any gaps in the Board's skills set taking into consideration the Group's business operations. The Board would be able to function smoothly notwithstanding any resignation or retirement of any Director given the present number of members and mix of competencies on the Board.

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Key information on the Directors as at the date of this Annual Report is set out below:

Name of Directors	Appointment	Date of initial appointment/ Date of last re-election as Director	Directorships in other listed companies and other principal commitments	
			Current	Past 3 Years
Mr Ho Han Leong Calvin	Non-Executive Chairman	1 October 2007/ 26 April 2017	<ul style="list-style-type: none"> Tai Tak Estates Sendirian Berhad (Director) 	–
Mr Ho Han Khoon (Alternate Director to Mr Ho Han Leong Calvin) ⁽¹⁾	Alternate Director to the Non-Executive Chairman	19 May 2014/–	<ul style="list-style-type: none"> Tai Tak Estates Sendirian Berhad (Director) 	–
Mr Kingston Kwek Eik Huih ⁽²⁾	Non-Executive Director	5 March 2019/–	<ul style="list-style-type: none"> Beijing Fortune Hotel Co., Ltd. (Director) Hong Leong Foundation (Governor) Welland Investments Limited (Alternate Director) 	–
Mr Neo Teck Pheng	Group Chief Executive Officer and Executive Director	1 October 2007/ 26 April 2017	–	–
Ms Ting Ping Ee, Joan Maria	Independent Director	19 May 2014/ 24 April 2018	<ul style="list-style-type: none"> Grand Union Holdings and Investments Incorporated (Independent Director) 	<ul style="list-style-type: none"> Grandland Shipping Limited (Independent Director)
Mr Yee Chia Hsing	Lead Independent Director	19 May 2014/ 24 April 2018	<ul style="list-style-type: none"> CIMB Bank Berhad, Singapore Branch (Head of Catalist) Elected Member of the Parliament of Singapore Ezion Holdings Limited (Independent Director) Ren Ci Hospital (Audit Committee member) 	–
Mr Wee Guan Oei Desmond	Independent Director	6 February 2017/ 26 April 2017	<ul style="list-style-type: none"> Rajah & Tann Singapore LLP (Partner and Head, Corporate Commercial Practice Group) Popular Holdings Limited (Independent Director) Spartans Rugby Singapore Limited (Non-Executive Director) 	–

Notes:

(1) The alternate Director bears all the duties and responsibilities of a Director.

(2) Mr Kingston Kwek Eik Huih is the son of Mr Kwek Leng Beng, the Chairman of M&C which is a controlling shareholder of the Company.

Principle 5: BOARD PERFORMANCE

There should be a formal annual assessment of the effectiveness of the Board as a whole and its board committees and the contribution by each director to the effectiveness of the Board.

Whilst Board performance is ultimately reflected in the long-term performance of the Group, the Board believes that engaging in a regular process of assessment and evaluation of Board performance in order to identify key strengths and areas for improvement is essential to effective stewardship and to attaining success for the Company.

Each year, the NC undertakes a formal process to assess the effectiveness of the Board as a whole and the Board committees. The NC uses objective and appropriate criteria to assess the performance of the Board and effectiveness of Board committees. Assessment parameters include evaluation of Board structure, conduct of meetings, corporate strategy, corporate planning, risk management, internal controls, measuring and monitoring performance, compensation, financial reporting and communication with shareholders.

As part of the process, the Directors individually complete appraisal forms which are collated by the Company Secretary. The Company Secretary then presents the results to the Chairman of the NC who then presents a report to the NC and the Board. The feedback, comments and recommendations by the Directors will be reviewed and discussed constructively by the NC and the Board to identify areas for improvements and relevant follow up action to be taken by the Board and management. No external facilitator has been used.

The NC has determined that given the number of Directors of the Company, size of the Board, the background, expertise and the participation in the Board meetings of the Company, it would not be necessary for each Director to perform a self-evaluation exercise.

Principle 6: ACCESS TO INFORMATION

In order to fulfil their responsibilities, directors should be provided with complete, adequate and timely information prior to board meetings and on an on-going basis so as to enable them to make informed decisions to discharge their duties and responsibilities.

The Company recognises the importance of providing the Board with relevant information on a timely basis prior to Board meetings and on an ongoing basis, to enable the Directors to make informed decisions to discharge their duties and responsibilities. The Board is provided with reports on the Group's operational and financial performance as well as budget variances, on a regular basis. Board papers are distributed in advance of board meetings so that the Directors have sufficient time to understand the matters to be discussed at the board meetings. The Directors are entitled to request from management and be provided with additional information as needed to make informed decisions.

The Board meets regularly. At each Board meeting, the Group Chief Executive Officer provides updates on the Group's business and operations and the Group Chief Financial Officer presents the financial performance. Presentations in relation to specific business areas may also be made by senior executives. This allows the Board to develop a better understanding of the progress of the Group's business as well as the issues and challenges facing the Group and promotes active engagement with management.

Where appropriate, informal meetings are also held for management to brief Directors on prospective transactions and potential developments in the early stages before formal Board approval is sought.

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Under the direction of the Chairman, the Company Secretary ensures good information flow within the Board and its Board committees and between management and Non-Executive Directors, advising the Board on all governance matters, as well as facilitating orientation and assisting with professional development as and when required. The Directors have separate and independent access to management and the Company Secretary and may communicate directly with management and the Company Secretary on all matters whenever they deem necessary, to ensure adherence to the Board procedures, and relevant rules and regulations which are applicable to the Company. In FY2018, the Company Secretary attended all Board and Board committee meetings. In addition, the Directors also have direct access to the Company's professional advisors if they require more information, at the expense of the Company.

The appointment and the removal of the Company Secretary is a matter for the Board as a whole.

The AC meets with the internal auditors and the external auditors without the presence of management at least once a year.

B. REMUNERATION MATTERS

Principle 7: PROCEDURES FOR DEVELOPING REMUNERATION POLICIES

There should be a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual directors. No director should be involved in deciding his own remuneration.

Principle 8: LEVEL AND MIX OF REMUNERATION

The level and structure of remuneration should be aligned with the long-term interest and risk policies of the company, and should be appropriate to attract, retain and motivate (a) the directors to provide good stewardship of the company, and (b) key management personnel to successfully manage the company. However, companies should avoid paying more than is necessary for this purpose.

Principle 9: DISCLOSURE ON REMUNERATION

Every company should provide clear disclosure of its remuneration policies, level and mix of remuneration, and the procedure for setting remuneration, in the company's annual report. It should provide disclosure in relation to its remuneration policies to enable investors to understand the link between remuneration paid to directors and key management personnel, and performance.

The Board has established the RC to oversee executive compensation and development.

The RC consists of:

Mr Wee Guan Oei Desmond (Independent Director)	(Chairman)
Mr Ho Han Leong Calvin (Non-Executive Chairman)	(Member)
Mr Ho Han Khoon (Alternate Director to Mr Ho Han Leong Calvin)	
Ms Ting Ping Ee, Joan Maria (Independent Director)	(Member)

The RC is chaired by an Independent Director and the members are all Non-Executive Directors.

Under its terms of reference, the RC's scope of duties and responsibilities of the RC is as follows:

- (a) recommending to the Board a framework of remuneration for the directors and key executives of the Group, including the Group Chief Executive Officer, Group Chief Financial Officer and Chief Executive Officers of the respective regions;
- (b) determining specific remuneration packages for each Executive Director, including the Group Chief Executive Officer;
- (c) reviewing all aspects of remuneration of employees (including, among others, employees who are related to the Directors and relatives of the Directors and controlling shareholders, if any), including Directors' fees, salaries, allowances, bonuses and other benefits-in-kind;
- (d) reviewing and ensuring that the remuneration of Non-Executive Directors is appropriate to the level of contribution by them, taking into account factors such as effort and time spent, and responsibilities of the Directors;
- (e) recommending employee share option schemes or any long term incentive scheme which may be set up from time to time and to do all acts necessary in connection therewith; and
- (f) reviewing the Company's obligations arising in the event of termination of each Executive Director's and key executive's contract of services, to ensure that such contract of services contain fair and reasonable clauses which are not overly generous.

In FY2018, the RC met and discussed various remuneration matters and recorded its decisions by way of minutes. All the RC members were involved in the deliberations. No Director was involved in the fixing of his/her own remuneration.

The Company established the First Sponsor Employee Share Option Scheme on 19 May 2014 but no options had been granted under the scheme to-date, which details can be found in the Directors' Statement.

In reviewing the remuneration packages of the Executive Director and key executives, the RC considers the level of remuneration based on the Company's remuneration policy which comprises the following distinct objectives:

- (a) to ensure that the remuneration packages are competitive in attracting and retaining employees capable of meeting the Company's needs;
- (b) to reward employees for achieving corporate performance targets in a fair and equitable way; and
- (c) to ensure that the remuneration reflects the employees' duties and responsibilities.

The remuneration packages of the Executive Director and key executives comprise a fixed component (in the form of a base salary and, where applicable, fixed allowances together with other benefits-in-kind determined by the Company's human resource policies), and variable components (which include variable bonuses) which are determined by, amongst other factors, the individual's performance, the Company's overall performance and industry practices in each specific year. The RC will consider granting long-term incentives to the Executive Director and key executives at the appropriate time, such as granting employee share options under the First Sponsor Employee Share Option Scheme and proposing performance share plans for shareholders' approval. The RC will consider the implementation of contractual provisions to reclaim long term incentives from the Executive Director and key executives in the event of exceptional circumstances of misstatement of financial results or of misconduct resulting in financial or other losses to the Company, only after the introduction of long-term incentives. Currently, variable bonus is given as a short-term incentive and employees' share options will be granted as a long-term incentive to the staff, to link rewards to corporate and individual performance so as to promote the long-term sustainability of the Company.

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The remuneration packages of Non-Executive Directors and Independent Directors comprise base director's fees and additional fees for services rendered on the various Board committees. In reviewing the structure and level of such fees, the RC takes into consideration factors such as the roles and responsibilities of, effort and time spent by, the Directors, changes in the business, corporate governance practices and regulatory rules, and the interval since the last fee review. The RC also compared the Company's fee structure against industry practices. Such fee is subject to shareholders' approval at the AGM. No remuneration consultants were appointed in FY2018. The First Sponsor Employee Share Option Scheme allows for participation by Non-Executive Directors and Independent Directors. The Company believes that this inclusion will allow the Company to attract experienced and qualified persons from different professional backgrounds to join the Company as Non-Executive Directors and Independent Directors and will better align the interests of such Non-Executive Directors and Independent Directors with the interests of shareholders.

A breakdown in percentage terms of each Director's and the Group Chief Executive Officer's remuneration paid/payable in fees, salary, bonus and benefits-in-kind for FY2018 is set out below:

Name of Directors	Fees ⁽¹⁾ %	Salary ⁽²⁾ %	Bonus ⁽²⁾ %	Benefits- in-kind %	Total %
Non-Executive Directors					
Below S\$250,000 each					
Mr Ho Han Leong Calvin ⁽³⁾	–	–	–	–	–
Mr Tan Kian Seng* ⁽³⁾	–	–	–	–	–
Ms Ting Ping Ee, Joan Maria	100	–	–	–	100
Mr Yee Chia Hsing	100	–	–	–	100
Mr Wee Guan Oei Desmond	100	–	–	–	100
Executive Director and Group Chief Executive Officer					
S\$4,250,000 to S\$4,500,000					
Mr Neo Teck Pheng ⁽³⁾	–	19	81	#	100

* Mr Tan Kian Seng resigned as Non-Executive Director of the Company on 5 March 2019. He was replaced by Mr Kingston Kwek Eik Huih who was appointed on the same date.

Denotes less than 0.5%.

Notes:

(1) The fees for FY2018 were approved by the Company's shareholders at the AGM held on 24 April 2018.

(2) The salary is inclusive of allowances. The salary and bonus are inclusive of employer's contributions to Central Provident Fund.

(3) Each Director renounced his Director's fees for FY2018 to the Company.

Although Guideline 9.2 of the Code provides that the Company should disclose the remuneration of each individual director and the Group Chief Executive Officer to the nearest thousand dollars, the Company has decided not to disclose such figures as it believes that such disclosure may be prejudicial to its business interests given the highly competitive environment it is operating in.

In view of the highly competitive human resource environment and so as not to hamper the Company's efforts to retain and nurture its talent pool, the Company has decided not to disclose the names and remuneration of its top five key executives (who are not Directors) in bands of S\$250,000 as well as the total remuneration paid to them in accordance with Guideline 9.3 of the Code.

For FY2018, there were no termination, retirement or post-employment benefits granted to Directors and key executives.

There was no employee in the Group who was an immediate family member of a Director or the Group Chief Executive Officer and whose remuneration exceeded S\$50,000 in FY2018.

C. ACCOUNTABILITY AND AUDIT

Principle 10: ACCOUNTABILITY

The Board should present a balanced and understandable assessment of the company's performance, position and prospects.

The Company provides shareholders with quarterly results announcements and annual financial statements within the relevant periods prescribed by the SGX-ST Listing Manual. The releases of quarterly results announcements and annual financial statements are accompanied by news releases issued to the media and which are also posted on SGXNET. In presenting the quarterly results announcements and annual financial statements to shareholders, it is the aim of the Board to provide shareholders with a balanced and understandable assessment of the performance, position and prospects of the Company and Group.

The Board is mindful of its obligation to provide timely and fair disclosure of material information. The Board is accountable to the shareholders while management is accountable to the Board. The Board meets to review and approve the Group's quarterly and annual financial results prior to release to shareholders. All board papers are given to the Board members prior to any meeting to facilitate effective discussion and decision making.

For FY2018, the Group Chief Executive Officer and the Group Chief Financial Officer provided assurance to the Board on the integrity of the quarterly unaudited financial results and the Board in turn provided a negative assurance confirmation in respect of the unaudited financial results for the first, second and third quarters in accordance with the regulatory requirements.

In addition to quarterly results announcements and annual financial statements, the Company also keeps its shareholders and analysts informed of the performance and changes in the Group or its business which would be likely to materially affect the price or value of the Company's securities on a timely and consistent basis, so as to assist shareholders and investors in their investment decisions. The Company complies with its disclosure obligations under the SGX-ST Listing Manual.

Principle 12: AUDIT COMMITTEE

The Board should establish an Audit Committee ("AC") with written terms of reference which clearly set out its authority and duties.

The members of the AC are:

Mr Yee Chia Hsing (Lead Independent Director)	(Chairman)
Ms Ting Ping Ee, Joan Maria (Independent Director)	(Member)
Mr Ho Han Leong Calvin (Non-Executive Chairman)	(Member)
Mr Ho Han Khoon (Alternate Director to Mr Ho Han Leong Calvin)	

Two of the members of the AC are Independent Directors. There is a good mix of expertise among the members who can handle financial as well as commercial issues relating to the Group's business. None of the members of the AC were previously partners or directors of existing external or internal audit firms within the previous 12 months.

CORPORATE GOVERNANCE

The AC has the authority to investigate any matter within its terms of reference. The AC has full access to and cooperation by management and full discretion to invite any director or executive officer to attend its meetings, and reasonable resources to enable it to discharge its functions properly. The AC has full access to the external and internal auditors, and to facilitate a more effective check on management, the AC meets (a) with the external auditors, and (b) with the internal auditors, in each case without the presence of management at least once a year. Similarly, both the external and internal auditors are given full access to the AC.

In FY2018, the Board approved amendments to the terms of reference of the AC to take into account the recent revisions of the Code and certain amendments to the SGX-ST Listing Manual consequential to such revisions. Under its terms of reference, the AC's scope of duties and responsibilities is as follows:

- (a) reviewing the audit plan of the Company's external auditors, their evaluation of the system of internal accounting controls, their letter to management and management's response, and results of the Company's audit conducted by the internal and external auditors;
- (b) reviewing the reports of the Company's external auditors including key audit matters, as well as the adequacy, effectiveness, independence, objectivity, scope and results of the external audit;
- (c) reporting to the Board on the AC's assessment of the independence and objectivity of the external auditors and the quality of the work carried out by the external auditors;
- (d) reviewing the co-operation given by the Company's officers to the external auditors;
- (e) reviewing and discussing with the external auditors, where applicable, any suspected fraud or irregularity, or suspected infringement of any relevant laws, rules and regulations, which has or likely to have a material adverse impact on the Group's operating results or financial position, and management's response;
- (f) making recommendations to the Board on the proposals to the shareholders, on the appointment, reappointment and removal of external auditors, and approving the remuneration and terms of engagement of the external auditors;
- (g) ensuring co-ordination between the external auditors and management, review the assistance given by management to the auditors, and discuss problems and concerns, if any, arising from audits, and any matters which the auditors may wish to discuss (in the absence of management, where necessary);
- (h) approving the Company's internal audit plans;
- (i) monitoring the implementation of internal controls over outstanding internal control weaknesses highlighted by the auditors;
- (j) deciding on the appointment, termination and remuneration of the internal auditors; if applicable, reviewing the adequacy, effectiveness, independence, scope and results of the Company's internal audit function, reporting to the Board on the AC's assessment of the adequacy, effectiveness and independence of the internal audit function and commenting on whether the internal audit function is independent, effective and adequately resourced;
- (k) reviewing the quarterly, half yearly and annual financial statements, focusing in particular on changes in accounting policies and practices, major risk areas, significant adjustments resulting from the audit, compliance with accounting standards and compliance with the SGX-ST Listing Manual and any other relevant statutory or regulatory requirements;
- (l) reviewing significant financial reporting issues so as to ensure integrity of the financial statements of the Company and any announcements relating to the Company's financial performance and reporting to the Board on such issues (including how these issues were addressed);
- (m) reviewing the material internal control procedures addressing financial, operational, compliance and information technology risks;

- (n) commissioning an independent audit on internal controls and risk management systems if it deems necessary for its assurance, or where it is not satisfied with the systems of internal controls and risk management;
- (o) reviewing interested person transactions falling within the scope of Chapter 9 of the SGX-ST Listing Manual above certain thresholds;
- (p) reviewing the grant of any entrusted loans to interested persons prior to such loans being entered into, to ensure that (i) the terms and (ii) the grant of the entrusted loans (taking into account various factors that may include, but are not limited to, the rationale for the grant, the creditworthiness of the borrower and the interest rate payable to the Group) are not prejudicial to the Group and the shareholders);
- (q) reviewing potential conflicts of interest, if any;
- (r) reviewing and considering transactions in which there may be potential conflicts of interests between the Company and interested persons and recommend whether those who are in a position of conflict should abstain from participating in any discussions or deliberations of the Board or voting on resolutions of the Board or the shareholders in relation to such transactions as well as to ensure that proper measures to mitigate such conflicts of interest have been put in place;
- (s) monitoring the investments in the customers, suppliers and competitors made by our Directors, controlling shareholders and their respective associates who are involved in the management of the Company or have shareholding interests in similar or related business of the Company and making assessments on whether there are any potential conflicts of interests and ensuring that proper measures to mitigate such conflicts of interests have been put in place;
- (t) reviewing and assessing from time to time the prevailing processes put in place to manage any material conflicts of interest in relation to the controlling shareholders as described in the section titled "Interested Person Transactions and Conflicts of Interest – Conflicts of Interest – Conflict of Interests in relation to First Sponsor Capital Limited and First Sponsor Management Limited" in the prospectus registered by the Monetary Authority of Singapore on 10 July 2014 in relation to the Company's initial public offering and listing of its shares on the Mainboard of the SGX-ST on 22 July 2014 and considering, where appropriate, additional measures for the management of such conflicts;
- (u) reviewing our key financial risk areas with a view to providing an independent oversight on the Group's financial reporting;
- (v) reviewing and recommending hedging policies and instruments, if any, to be implemented by the Company to the Directors;
- (w) reviewing the suitability of the Group Chief Financial Officer;
- (x) undertaking such other reviews and projects as may be requested by the Board, and reporting to the Board its findings from time to time on matters arising and requiring the attention of the AC;
- (y) reviewing the policy and arrangements for concern about possible improprieties in financial reporting or other matters to be safely raised, independently investigated and appropriately followed up and reporting to the Board any significant issues raised through such channels;
- (z) generally undertaking such other functions and duties as may be required by statute or the SGX-ST Listing Manual, or by such amendments as may be made thereto from time to time on a quarterly basis; and
- (aa) apart from the abovementioned duties, the commissioning and reviewing of the findings of internal investigations in the event of suspected fraud, irregularity, failure of internal controls or infringement of any applicable law, rule or regulation which has or is likely to have a material adverse impact on the Group's operating results and/or financial position.

CORPORATE GOVERNANCE

The AC held four AC meetings in FY2018. Management, including the Group Chief Executive Officer and Group Chief Financial Officer, was present at the meetings. In addition, the AC met (a) with the external auditors and (b) with the internal auditors, in each case without the presence of management in FY2018.

The AC considered the report from the external auditors, including their findings on the significant risks and audit focus areas. Significant matters that were discussed with management and the external auditors have been included as Key Audit Matters (“KAM”) in the audit report for FY2018 on pages 71 to 73 of this Annual Report.

In assessing the KAM, the AC took into consideration the approach and methodology applied as well as the reasonableness of the estimates and key assumptions used. The AC concluded that management’s accounting treatment and estimates in the KAM were appropriate.

To facilitate a more effective check on management, the AC meets with the external auditors without the presence of management at least once a year.

In appointing the audit firms for the Group, the AC is satisfied that the Company has complied with Rules 712 and 715 of the SGX-ST Listing Manual in relation to the appointment of its external auditors. After reviewing the non-audit services provided by the external auditors in FY2018 and the fees paid for such services, the AC is satisfied that the independence and objectivity of the external auditors has not been impaired by the provision of those services and recommends to the Board, the nomination of the external auditors for re-appointment. The external auditors have also provided confirmation of their independence to the AC. The amount of fees paid/payable to the external auditors for audit and non-audit services for the FY2018 is set out in Note 25 of the Financial Statements in this Annual Report.

WHISTLE-BLOWING POLICY

The Company has put in place a whistle-blowing policy where staff of the Group can raise in confidence, whether anonymously or otherwise, concerns on possible improprieties relating to accounting, financial reporting, internal controls and auditing matters or other operational matters without fear of reprisals in any form. While the whistle-blowing policy is meant to protect genuine whistle-blowers from any unfair treatment as a result of their report, it strictly prohibits frivolous and bogus complaints. The policy is also not a route for taking up personal grievances.

A mechanism for the submission of issues/concerns has been established which includes a dedicated e-mail address allowing whistle-blowers to contact the AC directly, and in confidence so that his/her identity will be protected from reprisals within the limits of the law.

The AC has the authority to conduct independent investigations into any complaints. To-date, no reports of fraudulent or inappropriate activities or malpractices have been received.

Principle 11: RISK MANAGEMENT AND INTERNAL CONTROLS

The Board is responsible for the governance of risk. The Board should ensure that Management maintains a sound system of risk management and internal controls to safeguard shareholders’ interests and the company’s assets, and should determine the nature and extent of the significant risks which the Board is willing to take in achieving its strategic objectives.

Principle 13: INTERNAL AUDIT

The company should establish an effective internal audit function that is adequately resourced and independent of the activities it audits.

The Board acknowledges that risks are inherent in business and views the taking of risks as a prelude to generating returns. However, the Board's policy is that risks should be managed in order to reduce the variability of returns. The Group has put in place a risk management framework which outlines all key risks of the Group as well as the recommended action plans in the strategic, operational, financial and treasury, information technology and compliance areas.

The primary responsibility for identifying business risks lies with management. The Board reviews and approves the processes for managing risks recommended by management.

Management reviews the system of internal controls regularly in order to ensure that sufficient checks and balances exist within the system to safeguard the Company's assets, ensure maintenance of proper accounting records, and compliance with relevant legislation and best practices.

The Group appointed PricewaterhouseCoopers LLP ("**PwC**") as its internal auditor to review the Group's existing systems of internal controls and it reports to the Chairman of the AC directly. The audit work carried out by PwC is in accordance with the standards set by internationally recognised professional bodies including the Standards for the Professional Practice of Internal Auditing of the Institute of Internal Auditors. PwC has unfettered access to the AC, the Board and management as well as the Group's documents, records, properties and personnel. All audit findings and recommendations made by PwC are reported to and discussed by the AC. In addition, the AC meets with the internal auditors without the presence of management at least once a year. The AC also reviews the adequacy and effectiveness of the outsourced internal audit function annually.

The Board has reviewed the adequacy and effectiveness of the Group's internal controls framework in relation to financial, operational, compliance and information technology controls as well as risk management systems of the Group, with the assistance of management, the internal auditors and the external auditors. The Board acknowledges that no system of internal controls can provide absolute assurance against the occurrence of human and system errors, poor judgement in decision-making, losses, fraud or other irregularities. Based on its assessment of the work performed by the internal and external auditors as well as confirmation from the Group Chief Executive Officer and Group Chief Financial Officer, the Board, with the concurrence of AC, is of the opinion that the Group's internal controls in addressing the financial, operational, compliance and information technology risks which the Group considers to be relevant and material to its operations, and the risk management systems, are effective and adequate as at 31 December 2018.

The Board also received assurance from the Group Chief Executive Officer and the Group Chief Financial Officer that the financial records have been properly maintained and the financial statements for FY2018 give a true and fair view of the Company's operations and finances.

C. SHAREHOLDER RIGHTS AND RESPONSIBILITIES

Principle 14: SHAREHOLDER RIGHTS

Companies should treat all shareholders fairly and equitably, and should recognise, protect and facilitate the exercise of shareholders' rights, and continually review and update such governance arrangements.

CORPORATE GOVERNANCE

Principle 15: COMMUNICATION WITH SHAREHOLDERS

Companies should actively engage their shareholders and put in place an investor relations policy to promote regular, effective and fair communication with shareholders.

Principle 16: CONDUCT OF SHAREHOLDER MEETINGS

Companies should encourage greater shareholder participation at general meetings of shareholders, and allow shareholders the opportunity to communicate their views on various matters affecting the company.

The Company is committed to treating all shareholders fairly and equitably. The Company recognises, protects and facilitates the exercise of shareholders' rights.

It is the Company's policy to be transparent and open with its shareholders and this is achieved through timely announcements and meaningful disclosures, which are made on a non-selective basis. Shareholders can contact the Company or access information on the Company at its website at www.1st-sponsor.com.sg which has a dedicated "Investor Relations" link that provides, *inter alia*, information on the annual reports and the latest financial results as released by the Company on SGXNET and other information which may be relevant to shareholders.

In addition to the quarterly financial results released on SGXNET, the Company also concurrently provides a presentation pack highlighting key developments of the Group to its shareholders on SGXNET. These are also available on the Company's website. The Group Chief Executive Officer and Group Chief Financial Officer hold briefings for analysts and interested investors immediately after each release of its quarterly financial results.

The Board supports and encourages shareholders' participation at the Company's general meetings. The Board believes that general meetings serve as an opportune forum for shareholders to meet the Board and key management, and to interact with them. The Non-Executive Chairman, the chairpersons of the NC, RC and AC, and the external auditors were present at the last AGM, and will endeavor to be present at the 2019 AGM to assist the Directors in addressing queries raised by the shareholders. Sufficient explanations of all resolutions are included in the notice of general meetings.

The Company has put all resolutions tabled to vote by poll. The results of the poll for each resolution were announced on SGXNET in a timely manner.

The Company's Articles of Association allow a shareholder to appoint up to two proxies to attend and vote on his/her behalf at general meetings. A shareholder who is a "relevant intermediary" may appoint more than two proxies each. A proxy need not be a shareholder of the Company. The Company does not permit voting in absentia by mail, facsimile or e-mail due to the difficulty in verifying and ensuring authenticity of the vote.

All shareholders are and will be given an opportunity to participate effectively in and vote at general meetings. Separate resolutions on each distinct issue will be tabled at general meetings. "Bundling" of resolutions will be kept to a minimum and executed only where the resolutions are interdependent as to form one significant proposal and only where there are reasons and material implications involved.

The Company Secretary prepares minutes of the general meetings that include all comments or queries raised by shareholders relating to the agenda of the meeting and responses from the Board and key management. The minutes of the general meetings will be made available to shareholders upon request.

The Company does not have a fixed dividend policy. The form, frequency and amount of dividends will depend on the Company's earnings, financial position, results of operations, capital needs, plans for expansion and other factors which our Directors may deem appropriate.

The Board will work towards a stable payout with a steady growth when appropriate, subject to the successful implementation of the Group's business strategy and prevailing market conditions. For FY2018, the Board has recommended a final tax exempt (one-tier) dividend of 1.30 Singapore cents per ordinary share for approval of shareholders at the forthcoming AGM.

INTERESTED PERSON TRANSACTIONS

The Company has adopted an internal policy in respect of any transactions with interested persons and has set out procedures for review and approval of such interested person transactions. Interested person transactions were carried out on normal commercial terms and were not prejudicial to the interests of the Company and its minority shareholders. Interested person transactions entered into by the Group is submitted to the AC for review on a quarterly basis. Under the SGX-ST Listing Manual, where any interested person transaction requires shareholders' approval, the interested person will abstain from voting and the decision will be made by the other non-interested shareholders. When a potential conflict of interest arises, the Director concerned neither takes part in discussions nor exercises any influence over other members of the Board.

The AC reviewed interested person transactions entered into by the Group during FY2018. During FY2018, there were no interested person transactions with an aggregate value of S\$100,000 and above, except for the following:

Name of interested person	Aggregate value of all interested person transactions entered into during the financial year under review (excluding transactions less than S\$100,000 and transactions conducted under shareholders' mandate pursuant to Rule 920 of the SGX-ST Listing Manual) (S\$'000)	Aggregate value of all interested person transactions conducted under shareholders' mandate pursuant to Rule 920 of the SGX-ST Listing Manual (excluding transactions less than S\$100,000) (S\$'000)
Tai Tak Industries Pte. Ltd. ("TTIPL") ⁽¹⁾ – Joint venture equity injection and shareholders' loans to FS Nieuw Holland Pte. Ltd. ("JVCo"), a joint venture entity in which each of TTIPL and the Group has a 50% shareholding interest	9,669 ⁽²⁾	Not applicable ⁽³⁾

Notes:

- (1) TTIPL is an indirect wholly-owned subsidiary of Tai Tak Estates Sendirian Berhad ("Tai Tak"), which is a controlling shareholder of the Company.
- (2) The figure comprises the aggregate value of the equity injected by the Group into JVCo and the interest-free shareholders' loans extended by the Group to JVCo. Shareholders' loans were extended by TTIPL and the Group on an interest-free basis in proportion to their respective equity interest in the JVCo and on the same terms and conditions. These loans were subsequently fully capitalised into equity of JVCo. As announced by the Company on 26 October 2018, the participation by the Company in the JVCo constitutes an interested person transaction, which amount at risk (taken together with that of other transactions entered into with the Tai Tak group in FY2018) was less than 3% of the then latest audited net tangible assets of the Group.
- (3) The Company does not have a general mandate from shareholders pursuant to Rule 920 of the SGX-ST Listing Manual.

The above interested person transaction was carried out on normal commercial terms and was not prejudicial to the interests of the Company and its minority shareholders.

CORPORATE GOVERNANCE

MATERIAL CONTRACTS

Other than as disclosed in the financial statements, there were no material contracts of the Company or its subsidiaries involving the interest of any director or controlling shareholder subsisting as at 31 December 2018.

DEALING IN THE COMPANY'S SECURITIES

In line with Rule 1207 (19) of the SGX-ST Listing Manual on dealing in securities, the Group has adopted an internal code which provides guidance to its directors and key management in relation to dealing in securities.

The Company has informed its directors and key management not to deal in the Company's shares whilst they are in possession of unpublished material price-sensitive information and during the period commencing two weeks before the announcement of the Company's financial results for each of the first three quarters of its financial year and one month before the announcement of the Company's full year financial results. They are also advised not to deal in the Company's securities on short-term considerations. There has not been any incidence of non-compliance.