Far East Orchard Limited (the "**Company**") is firmly committed to maintaining a high standard of corporate governance and promoting corporate transparency, accountability and integrity to enhance shareholders' value.

This report describes the corporate governance practices and structures of the Company and its subsidiaries (the "**Group**") with reference to the principles and guidelines of the Code of Corporate Governance 2012 (the "**Code**"), the Listing Manual of the Singapore Exchange Securities Trading Limited ("**SGX-ST**") and the Companies Act (Cap. 50) of Singapore ("**Companies Act**"), where applicable. The Group remains focused on the spirit and substance of the Code. It is constantly reviewing its current practices in line with the guidelines of the Code.

BOARD MATTERS

Principle 1: The Board's Conduct of its Affairs

Fiduciary Functions and Independent Judgement

The board of directors of the Company (the "**Board**"), as fiduciaries acting in the interests of the Company, is collectively responsible for the long-term success of the Group. It has the responsibility to oversee the effectiveness of the management of the Company (the "**Management**"), provide entrepreneurial leadership, review the Group's corporate strategies and direction, and ensure that the necessary financial and human resources are adequate to achieve the Group's goals. The Company's Management remains accountable to the Board.

The functions of the Board include reviewing and approving the annual budget of the Group, ensuring that there is a sound system of internal controls to safeguard the Group's assets, reviewing management accounts, reviewing the Management and business performance of the Group, approving the release of the quarterly and year-end results announcements, and endorsing the framework of remuneration for the Board and key management executives (such as the heads of the strategic business units of the Group) (the "**Key Executives**").

The directors on the Board ("**Directors**") have the right core competencies and experience to enable the Board to contribute effectively.

Every Director is expected, in the course of carrying out his/her duties, to act in good faith, provide insights and consider at all times, the interests of the Group.

Delegation by the Board

The Board has established three (3) board committees ("**Board Committees**") to assist in the execution of its responsibilities. They are the Audit & Risk Committee ("**ARC**"), the Remuneration Committee ("**RC**") and the Nominating Committee ("**NC**"). Each Board Committee is governed by clear terms of reference which have been approved by the Board.

Meetings of Directors

The Board meets at least four (4) times a year at regular intervals and whenever particular circumstances require. Telephonic attendance and conference via audio communication at Board meetings are allowed under the Company's Constitution. The Board and Board Committees may also make decisions by way of circulating resolutions.

The Company recognises the contribution of the Directors beyond attendance at the meetings of the Board and Board Committees. The attendance of the Directors at scheduled meetings of the Board and Board Committees during the financial year ended 31 December 2016 is disclosed below:

	Board	Audit & Risk Committee	Nominating Committee	Remuneration Committee
No. of Meetings	**4**	**5**	**1**	**2**
Names of Directors				
Koh Boon Hwee	4	-	1	-
Lui Chong Chee	4	-	-	-
Ng Siok Keow[1]	1	-	-	-
Koh Kah Sek[2]	1	-	-	-
Heng Chiang Meng	4	5	1	2
Cheng Hong Kok	4	5	-	2

	Board	Audit & Risk Committee	Nominating Committee	Remuneration Committee
No. of Meetings	**4**	**5**	**1**	**2**
Names of Directors				
Chua Kheng Yeng, Jennie	4	5	1	-
Ee Choo Lin Diana	4	5	-	2

NOTES:
1 Mdm Ng Siok Keow retired as a Non-Executive Director on 20 April 2016.
2 Ms Koh Kah Sek was appointed as a Non-Executive Director with effect from 1 November 2016.

Material Transactions
The Company has adopted internal guidelines regarding matters that require Board approval. The types of material transactions, which require Board approval, include:
i) transactions in the ordinary course of business that have not been delegated by the Board to any Board Committee for approval;
ii) major transactions not in the ordinary course of business;
iii) bank borrowings;
iv) provision of corporate guarantees or other securities to secure loans granted to subsidiaries and associated companies;
v) acquisition or disposal of fixed assets, save where authority has been delegated by the Board to any Board Committee for approval;
vi) equity or contractual joint ventures;
vii) diversification into new businesses; and
viii) interested person transactions, each with a value of more than S$100,000.

Training and Orientation
Changes to regulations and accounting standards are monitored closely by Management. The Directors are briefed, during Board meetings or at specially convened sessions conducted by professionals, on regulatory changes that have any significant bearing on the Group's or Directors' obligations.

Newly appointed Directors are briefed on the roles and responsibilities of a Director of a public listed company and on the business activities and strategic directions of the Group. Each new Director is provided with a formal letter setting out the Director's duties and obligations. Directors are provided with relevant information on the Group's policies and procedures relating to corporate conduct and governance, including disclosure of interests in securities, restricted periods for dealings in the Group's securities and restrictions on disclosure of confidential or price sensitive information.

During the financial year ended 31 December 2016, the Directors were updated on recent changes to the Companies Act and the SGX-ST Listing Manual, and provided with opportunities to attend appropriate courses, conferences and seminars, at the Company's expense, which include programmes conducted by the Singapore Institute of Directors.

Conflict of Interest
To address and manage possible conflicts of interest that may arise between Directors' interests and those of the Group, the Company has put in place appropriate procedures including requiring (i) Directors to declare upfront at each Board meeting, any conflict of interest to any proposal or papers submitted for discussion at such Board meeting, and (ii) for such Directors to refrain from participating in meetings or discussions (or relevant segments thereof) in addition to abstaining from voting, on any matter in which they are so interested or conflicted.

Principle 2: Board Composition and Guidance

Independence of Directors
The Board currently consists of seven (7) Directors, four (4) of whom are considered independent by the Board ("**IDs**"), namely Mr Heng Chiang Meng, Mr Cheng Hong Kok, Ms Chua Kheng Yeng, Jennie and Mdm Ee Choo Lin Diana. There is a strong element of independence on the Board, with the IDs constituting more than half of the Board.

The IDs have each provided declarations to confirm that they do not have any relationship with the Company or its related companies and its officers that could impair, interfere, or be reasonably perceived to interfere, with their judgement in the best interests of the Company. The NC and the Board have deliberated their declarations and considered them independent.

Presently, Mr Heng Chiang Meng and Mr Cheng Hong Kok have been on the Board for more than nine (9) years. The Board has subjected their independence to a rigorous review. In considering their independence, the Board has determined that they do not have a direct or indirect relationship with the Company based on:

(a) the guidelines described in Guideline 2.3 of the Code;
(b) all relevant facts and circumstances; and
(c) all relevant transactions and relationships.

During the review, Mr Heng and Mr Cheng had excused themselves and abstained from all deliberations and discussion.

Taking into account the views of Mr Heng and Mr Cheng, the Board concurs that they continued to demonstrate strong independence in character and judgement in the discharge of their responsibilities as Directors of the Company. They express their viewpoints, debate issues and objectively scrutinise and challenge Management. They would seek clarification as required and have direct access to Management and staff of the Company.

They have in-depth understanding of the Group's business and operating environment and provide the Company with their experience and knowledge of the Group's business and the industry. Based on their respective confirmation of independence, they have no association with Management that could compromise their independence.

Having considered the above factors, the Board is of the view that Mr Heng and Mr Cheng continue to be considered as IDs, notwithstanding that they have served on the Board for more than nine (9) years.

Composition and Size

The Board is of the view that its present size is appropriate and facilitates effective decision-making, taking into account the scope and nature of the Group's operations. The Board comprises respected members of the business community who have long and extensive experience in various fields, including real estate, engineering, hospitality, corporate management, accounting, banking and finance. A profile of each member of the Board is found in the "Board of Directors and Management" section of this Annual Report.

Board members engage in open and constructive debate and challenge Management on its assumptions and proposals which are fundamental to good corporate governance. The Board aids in the development of growth strategies and oversees effective implementation by Management to achieve set objectives. The Board also monitors reporting of performance. The non-executive Directors ("**Non-Executive Directors**") constitute a majority on the Board, and are well supported by accurate, complete and timely information. Non-Executive Directors have unrestricted access to Management. Informal meetings are held for Management to brief Directors on prospective deals and potential developments at an early stage, before formal Board approval is sought. When Directors are unable to attend any Board or Board Committee meetings, they may provide their comments to the Chairman of the Board or the relevant Board Committees separately.

The Board has no dissenting view on the Chairman's Statement from the Chairman and the CEO's Message from the Group Chief Executive Officer and Managing Director ("**Group CEO**") for the year in review.

Principle 3: Chairman and Chief Executive Officer

Role of Chairman and Group CEO

The roles and responsibilities of the Chairman and the Group CEO are distinct and separate to maintain effective supervision and accountability. The Chairman and the Group CEO are not related family members.

The Chairman is responsible for ensuring the effectiveness of the Board and Board Committees as well as the governance process. He promotes an open environment for debate, ensures sufficient allocation of time for thorough discussion of Board Meeting agenda items and ensures that Non-Executive Directors are able to speak freely and

contribute effectively. In addition, he provides close oversight, guidance, advice and leadership to the Group CEO and Management.

At annual general meetings ("**AGM**") and other shareholders meetings, the Chairman plays a pivotal role in fostering constructive dialogue between shareholders, the Board and Management.

The Group CEO, who is an executive Director ("**Executive Director**"), manages and develops the businesses of the Group. He is responsible for effectively managing and supervising the day-to-day business operations in accordance with the strategies, policies and business plans approved by the Board. The Group CEO is supported by the Key Executives in the day-to-day operations of the Group. Board interaction with, and independent access to, Management is encouraged.

Lead Independent Director
Shareholders with concerns may contact the lead independent director ("**Lead ID**"), Mr Heng Chiang Meng, directly when contact through the normal channels via the Chairman or other Management personnel has failed to provide satisfactory resolution, or when such contact is inappropriate. The Lead ID's email address is available on the Company's website.

The IDs, led by the Lead ID, meet without the presence of other Directors as and when required and provide feedback to the Chairman after such meetings.

Principle 4: Board Membership

NC Composition and Role
The NC was established on 25 March 2002 and now comprises Mr Heng Chiang Meng, Mr Koh Boon Hwee and Ms Chua Kheng Yeng, Jennie, who are all Non-Executive Directors, the majority of whom are independent. Mr Heng Chiang Meng, who was appointed as the Lead ID in 2008, is the Chairman of the NC.

The NC's key Terms of Reference include making recommendations to the Board on all appointments to the Board and Board Committees, assessing the effectiveness of the Board as a whole. The NC reviews the training and professional development programmes for the Board and maintains effective working relationships with the Board and Management. The NC makes recommendations to the Board to review succession planning for Directors and Management.

Board Renewal, Selection, Nomination and Re-nomination
The Board's renewal is an on-going process, to ensure good governance and to maintain relevance to the business as well as the changing needs of the Group. New Directors are normally appointed by way of a Board Resolution, after the NC has approved their nomination.

The NC will consider the Company's current Board in terms of its size, composition, collective skills and experience and diversity. Potential candidates are selected through internal resources, referrals from existing Directors and/or external searches. In its search and selection process, the NC considers whether candidates possess relevant experience and have the calibre to contribute to the Group and its businesses, and complement the skills and competencies and attributes of the existing Board and the requirements of the Group.

The NC is charged with the responsibility of re-nominating the Directors. The Company's Constitution requires one-third, or the number nearest to one-third, of the Directors, including the person holding the office of Managing Director (or any equivalent appointment however described), to retire from office. The Directors to retire every year are those who have been longest in office since their last election or appointment. No Director stays in office for more than three (3) years without being re-elected by shareholders. In addition, a newly appointed Director will hold office only until the next AGM at which he/she will be eligible for re-election.

Each member of the NC abstains from voting on any resolution, making any recommendation and/or participating in respect of matters in which he/she is interested in.

The list of Directors who are subject to retirement by rotation in accordance with the Company's Constitution and who are seeking re-election at the next AGM on 20 April 2017 are stated in the Notice of AGM on page 118 of this Annual Report.

There were no alternate directors appointed on the Board for the financial year ended 31 December 2016.

The NC conducts an annual review of the independence of each Director, taking into account the relationships and the tenure of service under the Code. Each ID submits a confirmation on his/her independence, based on the guidelines provided by the Code, for the NC's consideration. The NC provides its views on the independence of the Directors, to the Board for the Board's consideration.

Multiple Board Representations

When a Director has multiple board representations, the NC also considers whether or not the Director is able to and has adequately carried out his/her duties as a Director of the Company. The NC noted that Board and Board Committee meetings are scheduled in advance to facilitate the Directors' scheduling of their commitments, and while some of the Directors have multiple board representations, there was full attendance at the Board and Board Committee meetings during the year. Accordingly, the NC is of the view that there is no current need to determine the maximum number of board representations a Director should have, and is satisfied that sufficient time and attention are being given by the Directors to the affairs of the Company.

The NC is satisfied that all Directors have discharged their duties adequately for the financial year ended 31 December 2016.

Key Information of Directors

Key information regarding the Directors is listed in the "Board of Directors and Management" of this Annual Report. Information on the Directors is also available on www.fareastorchard.com.sg.

Principle 5: Board Performance

Board Performance Evaluation

The responsibilities of the NC include evaluating the performance of the Board and the Chairman of the Board based on a set of criteria. The assessment criteria include the Board's performance against established performance objectives, namely competencies, commitment, contribution, performance, attendance, preparedness, participation and candour of the Board and Directors, contribution to ensuring effective risk management, response to problems and crises, the Board's relationship with the Management and adequacy of Board and Board Committee meetings held to enable proper consideration of issues. The NC is of the view that the primary objective of the assessment exercise is to create a platform for the Board members to encourage an exchange of views on the Board's strengths and shortcomings with a view to strengthening the effectiveness of the Board as a whole.

A formal review of the Board's performance is undertaken collectively and individually by the Board annually. The evaluation exercise is carried out annually by way of performance evaluation checklists which are circulated to the Board members for completion and thereafter, for the NC to review and determine the actions required to improve the corporate governance of the Company and effectiveness of the Board and Board Committees as a whole.

Informal evaluation of the performance of the Board will be undertaken on a continuous basis by the NC with inputs from the Executive Director and the Chairman. The latter will act on the results of the evaluation and where appropriate, in consultation with the NC, will propose the appointment of new Directors or seek resignation of current Directors.

Principle 6: Access to Information

Access to Management

The Board has separate and independent access to the Management of the Group. Management also keeps the Board apprised of the Group's operations and performance by providing periodic management reports. In order to ensure that the Board is able to fulfil its responsibilities, Management is required to provide complete, adequate and timely information to the Board on issues that require their decision. Whenever appropriate, employees who can provide additional insight in the matters to be discussed are invited to attend the Board meetings.

Adequate and Timely Information
Information provided include board papers and related materials, background or explanatory information relating to matters to be brought before the Board, and copies of disclosure documents, budgets, forecasts and quarterly internal financial statements. In respect of budgets, material variances between the projections and actual results are also disclosed and explained.

Company Secretary
The Directors also have separate and independent access to each Company Secretary. The role of the Company Secretary includes attendance at all Board meetings, preparation of the agenda and papers for meetings of the Board and its various committees, writing and circulating minutes of meetings, sending Board members information relating to the Group as needed, ensuring that board procedures are followed and that applicable rules and regulations are complied with. The appointment and removal of the Company Secretaries are subject to the approval of the Board.

The Company's Constitution and Terms of Reference of the Board Committees provide for meetings by teleconferencing or videoconferencing where physical meetings are not possible. Communication could also be effected by electronic means such as emails.

Independent Professional Advice
The Board has a procedure for Directors, individually or as a group, in the furtherance of their duties, to seek independent professional advice, if necessary, at the Company's expense.

Principle 7: Procedures for Developing Remuneration Policies

RC Composition and Role
The RC was established on 25 March 2002 and now comprises three (3) members, all of whom are IDs. Mr Heng Chiang Meng, the Lead ID, chairs the RC. The other members of the RC are Mr Cheng Hong Kok and Mdm Ee Choo Lin Diana.

The key Terms of Reference of the RC include reviewing matters concerning remuneration of the Board, Group CEO and Management, including but not limited to Director's fees, salaries, allowances, bonuses and benefits-in-kind.

The RC approves the framework of remuneration for the entire organisation, including the structuring of any long-term incentive plans. The members of the RC do not participate in any decisions concerning their own remuneration. The RC's recommendations are submitted for the Board's discussion or, as the case may be, approval.

The RC recommends to the Board the specific remuneration packages for each Executive Director and the Group CEO upon recruitment. Subsequently, various aspects of their remuneration will be reviewed by the RC for recommendation to the Board.

The RC members having managed large organisations, are all familiar with and knowledgeable concerning executive compensation matters.

The Directors' fee framework is evaluated periodically for appropriateness, taking into account the level of contributions, the responsibilities and obligations of these Directors, the prevailing market conditions and referencing the Directors' fees against comparable and independent benchmarks. All Directors' fees are subject to shareholders' approval at the Company's AGM.

The RC has access to appropriate advice from the Head of Human Resources, who attends all RC meetings. The RC may also seek external expert advice on remuneration of Directors and employees. In its deliberations, the RC takes into consideration industry practices and norms in compensation, in addition to the Group's relative performance to the industry and the performance of the individual Directors. For the financial year ended 31 December 2016, the Company did not appoint any external remuneration consultants to advise on the renumeration of Directors.

The RC has reviewed the Company's obligations arising in the event of termination of the Executive Director's and Key Executives' contracts of employment and is of the view that such contracts of employment contain fair and reasonable termination clauses which are neither overly generous nor reward poor performance.

Principle 8: Level and Mix of Remuneration

Remuneration of Directors and Key Executives
All Directors receive the same amount of base retainer fees for being a member of the Board ("**Base Retainer Fees**"). The Board Chairman, Lead ID, Chairman and members of the various Board Committees receive additional fees ("**Additional Fees**"). At the AGM of each financial year, the Company will seek shareholders' approval for the aggregate of the Base Retainer Fees and Additional Fees payable in such financial year ("**Directors' Fees**"). The Board will recommend the Directors' Fees payable for the financial year ending 31 December 2017 for shareholders' approval at the 49th AGM.

The RC is of the view that the IDs are not over-compensated to the extent that their independence may be compromised.

The Group does not have any employee share option scheme.

Contractual Provisions for Executive Director & Key Executives
Mr Lui Chong Chee, the Group CEO and Managing Director, and an Executive Director, had entered into a contract of employment with the Company which links rewards to corporate and individual performance to promote shareholders' interests, long-term success of the Group and risk management policies. The contract of employment covers the terms of employment, specifically salary and other benefits. The remuneration package of Mr Lui Chong Chee includes a variable performance bonus.

The Company currently does not have contractual provisions to reclaim any incentive components of remuneration from the Executive Director and Key Executives and there are no excessively lengthy or onerous removal clauses in their contracts of employment.

Principle 9: Disclosure on Remuneration

Breakdown of Level and Mix of Directors' Fees
A breakdown showing the level and mix of the Directors' Fees for the financial year ended 31 December 2016 is appended below:

	Fees (S$)
Board Chairman	70,000
Board Member (Base Retainer Fee)	35,000
Lead Independent Director	15,000
Board Committees:	
Audit & Risk Committee	
- Chairman	43,500
- Member	24,000
Remuneration Committee	
- Chairman	14,000
- Member	7,500
Nominating Committee	
- Chairman	14,000
- Member	7,500

Breakdown of Directors' Fees received by each Director

A further breakdown of the aggregate Directors' Fees received by each Director for the financial year ended 31 December 2016 is appended below:

Name of Director	Aggregate Director Fee (S$)
Koh Boon Hwee	77,500
Lui Chong Chee	35,000
Ng Siok Keow[1]	10,673
Koh Kah Sek[2]	5,801
Heng Chiang Meng[3]	102,000
Cheng Hong Kok	86,000
Chua Kheng Yeng, Jennie[3]	66,500
Ee Choo Lin Diana[4]	101,500

NOTES:
1 Mdm Ng Siok Keow retired as a Non-Executive Director on 20 April 2016.
2 Ms Koh Kah Sek was appointed as a Non-Executive Director with effect from 1 November 2016.
3 The respective Directors' Fees of Mr Heng Chiang Meng and Ms Chua Kheng Yeng, Jennie are paid to companies in which they are a member/director.
4 The Directors' Fees received by Mdm Ee Choo Lin Diana include fees for her directorship on the board of Far East Hospitality Holdings Pte. Ltd. (S$10,000) and Toga Hotel Holdings Pty Limited (director and member of the audit & risk committee of the trustee board) (S$25,000).

Disclosure of remuneration of the Group CEO and Managing Director

The remuneration of the Group CEO and Managing Director (who currently is the Company's only Executive Director) for the financial year ended 31 December 2016 is disclosed below. The Board has assessed and decided that this is a key position, and the remuneration is disclosed in percentage terms for confidentiality. To disclose the exact details of the remuneration may subject the Company to the risk of attrition of this position, which is not in the best interests of the Company or its shareholders. In addition, the remuneration of the Group CEO and Managing Director has been disclosed in bands such that the minimum and maximum range is apparent.

Group CEO and Managing Director	Fees (%)	Base Salary[1] (%)	Variable/ Performance-related income/ bonuses (%)	Benefits-in-kind (%)
S$1,000,000 to S$1,249,999				
- Lui Chong Chee	3.22	77.97	18.55	0.26

NOTES:
1 Inclusive of allowances and Central Provident Fund contributions.

Disclosure of Key Executives' Remuneration

Key Executives' compensation consists of salary, allowances and bonuses. Bonuses are conditional upon the executives and the Group meeting certain performance targets. A significant proportion of executives' remuneration is linked to the Group and individual performance.

Since its restructuring in 2012, the Company has been growing steadily and Management has been keeping a lean team of staff. For confidentiality reasons and in view of the highly competitive human resource environment, the Company will disclose the remuneration of the top five (5) Key Executives in percentage terms for the financial year ended 31 December 2016. The Board is of the view that disclosure of the total aggregate remuneration and exact details would not be in the interests of the Company as such information may affect the retention of competent personnel in a competitive industry where experienced employees may be poached by competitors. The Board is mindful of the need to maintain stability and business continuity and that any attrition in a lean team of Key Executives would adversely affect the operations and business of the Company.

The Board is of the opinion that the disclosure of remuneration in percentage terms and in bands where the minimum and maximum range is apparent would enable shareholders to have an adequate appreciation of the Company's compensation policies and practices.

Key Executives	Designation	Base Salary[1] (%)	Variable / Performance-related income/ bonuses (%)	Benefits-in-kind (%)
S$750,000 - S$999,999				
Kiong Kim Hock Arthur	CEO, Far East Hospitality	88.95	8.38	2.67
S$500,000 - S$749,999				
Ling Ang Kerng, Kelvin	Chief Financial Officer	86.33	9.81	3.86
S$250,000 - S$499,999				
Brian Stampe	Head, Operations, Far East Hospitality	90.99	8.23	0.78
Audrey Chung Suet Cheng	Head, Global Sales & Marketing, Far East Hospitality	91.33	8.31	0.36
Tan Thiam Soon	Head of Human Resources	90.84	8.36	0.80

NOTES:
1 Inclusive of allowances and Central Provident Fund contributions.

For the financial year ended 31 December 2016, there was no termination, retirement or post-employment benefit granted to Directors, the Group CEO or any of the Key Executives.

Immediate Family Member of a Director or the Group CEO
No employee of the Company and its subsidiaries was an immediate family member of a Director or the Group CEO and whose remuneration exceeded S$50,000 during the financial year ended 31 December 2016.

Principle 10: Accountability

Accountability of the Board and Management
The Board conducts itself in ways that deliver maximum sustainable value to the shareholders. The Board promotes best practices in providing timely and full disclosure of material information in compliance with the statutory reporting requirements. The Board is accountable to shareholders and is responsible for providing a balanced and understandable assessment of the Group's performance, position and prospects through SGXNET announcements on a quarterly basis.

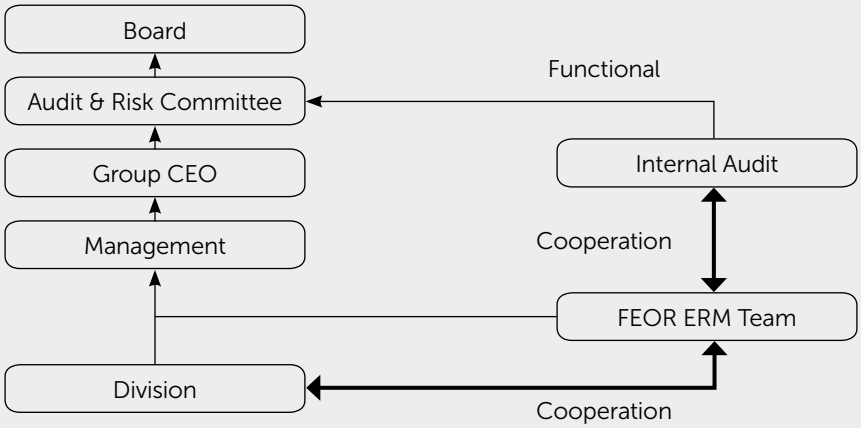
In preparing the financial statements, the Board has selected suitable accounting policies and applied them consistently. The Board has made judgements and estimates that are reasonable and prudent and ensures that all applicable accounting standards have been followed. The financial statements were prepared on the basis that the Directors have reasonable expectations, having made enquiries that the Group has adequate resources to continue operations for the foreseeable future.

The Board has taken adequate steps to ensure compliance with legislative and regulatory requirements, including requirements under the listing rules of the SGX-ST, for instance, by establishing written policies where appropriate.

Management provides members of the Board with quarterly management accounts and other information in connection with certain matters or transactions, which would require Board approval. In this way, the Board is kept abreast of the operations, financial performance, position and prospects of the Group.

Principle 11: Risk Management and Internal Controls

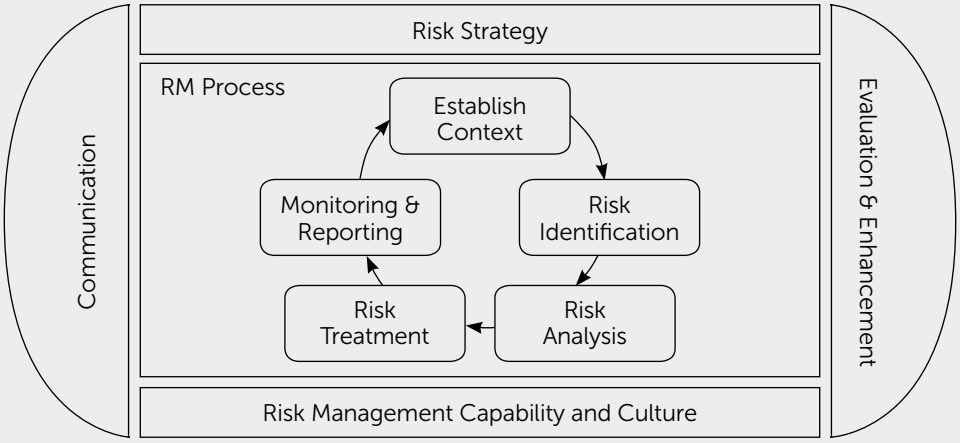
The Company believes that it maintains a sound system of risk management and internal controls, addressing material financial, operational, compliance and information technology ("**IT**") risks, amongst other risks, to safeguard shareholders' interests and the Group's assets. The Company has established the following structure to facilitate management of risks:



The Board determines the Company's levels of risk tolerance and risk policies, and oversees Management in the design, implementation and monitoring of the risk management and internal control systems. The Group refers all significant matters to the ARC and the Board. The Board reviews, at least annually, the adequacy and effectiveness of the Group's risk management and internal control systems.

The ARC assists the Board in determining the nature and extent of the significant risks which the Board is willing to take in achieving its strategic objectives. The ARC considers the nature of the risks facing the Group and the extent to which these risks are acceptable, the likelihood of risks materialising and the Group's ability to reduce their occurrence and impact on the business, and the cost versus the benefit of managing the risks. The ARC ensures that the internal auditors conduct reviews of the Group's internal controls, addressing material financial, operational and compliance controls. Risk management and financial management are also assessed.

The Group has in place an Enterprise Risk Management ("**ERM**") framework that consolidates the risk management practices across the Group. The consolidated approach provides the Management a formal framework and structure to identify risks and optimise available resources to mitigate the risks. The ERM framework encompasses an evaluation process to determine its adequacy and effectiveness; and accords appropriate enhancements to improve the ERM framework and structure. The framework is reviewed annually taking into considerations the changing business landscape and expansion of our operations. References are drawn from Corporate Governance Council Risk Governance Guidance for Listed Boards and SS ISO 31000:2011 when conceptualising this framework.



The ARC reviews the key risks of the Group quarterly and the key risks identified by the Group may be broadly categorised into the following:

Financial Risks
The Group's activities are affected by various financial risks, including interest rate risk, exchange rate risk and liquidity risk. The details of each are set out in Note 31 to the Financial Statements of this Annual Report.

Operational Risks
The operational risks facing the Group include changes in external market conditions such as oversupply of properties, price-cutting by competitors and drop in visitor arrivals due to political instability, terrorism and health warnings. Other risks include increase in operating costs and the necessity for capital expenditure from time to time.

Compliance Risks
The Group faces compliance risks such as changes to government policies, rules and regulations relating to the property and hospitality industry within the jurisdictions where the Group operates.

IT Risks
Failure of critical IT systems can potentially disrupt the Group's business. Confidential information, such as customers' personal data, may be at risk of cyber-attacks. The Group continuously reviews its IT security and processes, and makes necessary enhancements to mitigate such risks.

Management undertakes periodic reviews of the Group's past performances and conducts horizon scanning in order to identify and assess current and future risks related to the aforementioned risk categories – financial, operational, compliance and IT. Based on these reviews, Management employs reasonable endeavours in ensuring that these risks are within limits and strategies approved by the Board.

Although the Board acknowledges that it is responsible for the overall internal control framework, it also recognises that no cost effective internal control system will preclude all errors and irregularities. A system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can provide only reasonable and not absolute assurance against material misstatement or loss. The Board is satisfied that the system of risk management and internal controls that the Group has in place provides reasonable assurance against material financial misstatements or loss, safeguarding of assets, the maintenance of proper accounting records, reliability of financial information, compliance with legislation, regulations and best practices and the identification and management of business risks. The Board, with the concurrence of the ARC, is therefore of the opinion that the Group's system of risk management and internal controls is adequate and effective to address financial, operational, compliance and IT risks of the Group in its current business environment.

Assurance from CEO and CFO
The Board has received assurance from the Group CEO and the Chief Financial Officer ("**CFO**") that:
(i) the financial records have been properly maintained and the financial statements give a true and fair view of the Group's operations and finances; and
(ii) the Group's risk management and internal control systems are adequate and effective in addressing the material risks in the Group in its current business environment, including material financial, operational, compliance and IT risks.

Principle 12 : Audit & Risk Committee

The Company's ARC comprises four (4) Directors, all of whom are IDs. Mr Cheng Hong Kok is the Chairman of the ARC, the other members are Mr Heng Chiang Meng, Ms Chua Kheng Yeng, Jennie and Mdm Ee Choo Lin Diana. The Board is of the view that all members of the ARC have accounting and/or related financial management expertise and experience to discharge their responsibilities as members of the ARC.

The ARC has explicit authority to investigate any matter within its Terms of Reference, which include assessing the appropriateness of mechanisms created to identify, prevent and minimise business risks; ensuring integrity of financial statements and performance; ensuring that a review of the effectiveness of the Group's material internal controls is conducted at least annually; reviewing the independent auditors' proposed audit scope, their remuneration, the

terms of their engagement and the final audit report; reviewing the performance and considering the independence of the independent auditors and meeting with them quarterly; and reviewing all interested persons transactions.

The ARC has full access to and the co-operation of the Group's Management and in addition, has absolute discretion to invite any Director or Management of the Group to attend its meetings, as it deems necessary.

Audit and Non-audit Services
The ARC has conducted an annual review of non-audit services provided by the independent auditors to satisfy itself that the nature and extent of such services will not prejudice the independence and objectivity provided by the independent auditors before nominating them for re-appointment. The aggregate amount of fees payable to the independent auditors of the Company and subsidiaries for audit services for the financial year ended 31 December 2016 amounted to S$535,000. The fees for non-audit services provided by the independent auditors for the financial year ended 31 December 2016 were S$117,000 and were incurred for the provision of corporate tax compliance, tax advisory and certification services. The ARC has nominated PricewaterhouseCoopers LLP ("**PwC**") for re-appointment as independent auditors of the Company at the forthcoming AGM.

All local subsidiaries have appointed PwC as their independent auditors. All except two (2) of the overseas subsidiaries have also appointed PwC or its affiliated firms as their independent auditors. The Board and the ARC had reviewed the appointment of a different auditor for its two (2) overseas subsidiaries and were satisfied that the appointment of one (1) different auditor for the two (2) overseas subsidiaries would not compromise the standard and effectiveness of the audit of the Group.

The Company is in compliance with Rules 712 and 715 of the Listing Rules in relation to its independent auditors.

In the last financial year, the ARC held five (5) meetings. In those meetings, the ARC reviewed, *inter alia*, the internal auditors' report on interested party transactions as well as the various reports on other areas of the Group's business, the internal auditors' audit plan and fee for the current financial year, the independent auditors' final audit report, the quarterly and year-end announcements on financial statements, the Group's quarterly and year-end performances, and corporate governance matters.

The ARC has also met separately with the independent auditors and the internal auditors without the presence of the Company's Management. These meetings enable the independent auditors and internal auditors to raise issues, if any, encountered in the course of their audit directly to the ARC.

Where applicable, the ARC was provided with updates and explanation by the CFO and the independent auditors during the financial year, on changes to the accounting standards and issues which have direct impact on the Group's consolidated financial statements.

Whistle Blowing Policy
During the last financial year, the ARC reviewed the Whistle Blowing Policy of the Group. The Whistle Blowing Policy provides employees with an avenue to raise concerns in good faith and confidence about possible improprieties in financial reporting or other matters without fear of reprisals. The objective of the Policy is to ensure an independent investigation of such matters for appropriate follow-up action. Details of the Whistle Blowing Policy are made available to all employees in four different languages, namely, English, Mandarin, Bahasa Indonesia and Bahasa Malay.

Principle 13 : Internal Audit

During the financial year in review, the Group had outsourced its internal audit function to RSM Ethos Pte Ltd to provide the internal audit services.

The ARC ensures the adequacy of the internal audit function by examining the scope of the internal auditors' work, the quality of their reports, their qualifications and training, their relationship with the independent auditors and their independence of the areas reviewed. The internal auditors have unfettered access to the ARC, the Company's documents, records, properties and personnel.

Having regard to the Standards for the Professional Practice of Internal Auditing of the Institute of Internal Auditors, and having reviewed the functions and organisational structure of the internal auditors, the ARC is satisfied that the internal auditors meet the requisite standards, are adequately resourced, and have appropriate standing within the Group.

The ARC reviews, at least once a year, the adequacy and effectiveness of the internal auditors.

Principle 14 : Shareholder Rights

The Company practises fair and equitable treatment to all shareholders and stakeholders. To facilitate the exercise of ownership rights, the Company provides all material information which would materially affect the price or value of the Company's shares in an accurate and timely manner via SGXNET, so as to enable shareholders to make informed decisions.

Shareholders are entitled to and encouraged to attend all general meetings to stay informed of the Company's goals and strategies and to ensure a high level of accountability. The Board is satisfied that shareholders have been given the opportunity to participate effectively and to vote at general meetings. Shareholders are also informed of voting procedures governing general meetings.

Voting Rights
The Company's Constitution allows shareholders to vote in person or by proxy or by attorney, or in the case of a corporation, by a representative. A shareholder may appoint up to two proxies to attend and vote in his stead at a general meeting. For shareholders who hold shares through nominees such as CPF and custodian banks, they are now able to attend and vote at general meetings under the multiple proxy regime. The Company has not amended its Constitution to provide for other methods of voting in absentia due to security and integrity concerns. The Company noted that provision for such other methods of voting in absentia would also require a costly system of authentication to ensure the integrity of information and the identity of shareholders in telephonic and electronic media.

Principle 15 : Communication with Shareholders

The Company is committed to making timely, full and accurate disclosures in accordance with the listing rules of the SGX-ST and the Code. It strives to disclose information, including price sensitive information, to its shareholders in a timely and accurate manner within the mandatory periods. Such announcements include the quarterly and full-year results, material transactions and other major developments that will have an impact on the Company or the Group. The above-mentioned information and other additional information are posted on the Company's corporate website (http://www.fareastorchard.com.sg), ensuring that all stakeholders can access relevant and up-to-date information about the Company. Members of the public may also subscribe to RSS feeds of all announcements and press releases issued by the Company through its website. The Company also responds to queries from investors, fund managers and analysts, based on publicly available information, without making selective disclosures.

The first three quarters' financial results are released to shareholders no later than 45 days from the end of each quarter. Full year results are released no later than 60 days from the financial year end.

The Company recognises the importance of regular, effective and timely communication with the shareholders.

The Company's main forum for dialogue with shareholders takes place at its AGM, where members of the Board, Management and the independent auditors are in attendance. To solicit and understand shareholders' views, shareholders are given the opportunity at the AGM to express their views and ask questions regarding the Group. The Company conducts surveys at each AGM to receive feedback from shareholders.

Notices of general meetings are dispatched to shareholders, together with explanatory notes or a circular on items of special business, on a timely basis in accordance with the legal requirements.

Principle 16 : Conduct of Shareholder Meetings

The procedures at general meetings facilitate opportunities for shareholders to participate and communicate with the Directors.

At general meetings, each distinct issue is the subject of a separate resolution.

The Chairmen of the Board and the Board Committees are available at the Company's general meetings to address questions raised. The Company's independent auditors are also present at the AGM of the Company to address shareholders' queries on the conduct of audit and the preparation and content of the auditors' report. Shareholders also have the opportunity to communicate their views and discuss with the Board and Management after the general meetings.

The Company prepares Minutes of general meetings that include substantial and relevant comments or queries from shareholders relating to the agenda of the meetings, and responses from the Board and Management. These Minutes will be available to shareholders upon their request.

Voting by E-polling at General Meetings
Shareholders are given opportunities to vote at general meetings. The voting process for all AGM shall be by electronic polling for all resolutions for greater transparency in the voting process. Votes cast for or against and the respective percentages on each resolution will be tallied and displayed 'live' on-screen to shareholders immediately after each poll is conducted. The total number of votes cast for or against the resolutions and the respective percentages will also be announced in a timely manner after the AGM via SGXNET.

DEALINGS IN SECURITIES

On an annual basis, the Company issues a securities trading policy to its Directors and employees where they are reminded to refrain from dealing in the securities of the Company:

(i) during the two weeks before and up to the date of announcement of the Company's first three quarters' results and during the one month before and up to the date of announcement of the full year results;
(ii) on short term considerations; and
(iii) at any time if they are in possession of unpublished material price-sensitive information.

The Company also issues a quarterly circular to its Directors and employees reminding them of the prohibited period from dealing in the Company's securities before the release of the results and at any time if they are in possession of unpublished material price-sensitive information.

MATERIAL CONTRACTS

Save for the transactions set out in the Company's circular to shareholders dated 24 June 2013 and the related parties transactions as disclosed in the financial statements and this Annual Report, no material contract involving the interests of any Director or controlling shareholder of the Group has been entered into by the Company or any of its subsidiaries during the financial year and no such material contract is subsisting as at 31 December 2016.

INTERESTED PERSON TRANSACTIONS

Interested person transactions carried out during the financial year which fall under Chapter 9 of the Listing Manual of the SGX-ST are as follows:

Name of interested person	**Aggregate value of all interested person transactions conducted under shareholders' mandate pursuant to Rule 920 of the Listing Manual** (excluding transactions less than S$100,000)	**Aggregate value of all interested person transactions during the financial year under review** (excluding transactions less than S$100,000 and transactions conducted under shareholders' mandate pursuant to Rule 920)
	12 months ended 31 December 2016 S$'000	12 months ended 31 December 2016 S$'000
China Classic Pte Ltd		
Hospitality management income	111	-
Dollar Land Singapore Private Limited		
Hospitality management income	388	-
Far East Hospitality Real Estate Investment Trust		
Rental expense on operating leases		
- offices	(1,254)	-
- hotels and serviced residences	(22,629)	-
Capital expenditure committed [1]	-	(4,900)
Far East Management (Private) Limited		
Management service fees	(2,249)	-
Hospitality services	(1,691)	-
Project management service fees	(643)	-
Far East Organization Centre Pte Ltd		
Hospitality management income	2,373	-
Far East Property Sales Pte Ltd		
Sales and marketing service fees	(232)	-
Far East Soho Pte Ltd		
Hospitality management income	607	-
Golden Development Private Limited		
Hospitality management income	2,911	-
Golden Landmark Pte Ltd		
Hospitality management income	1,451	-
Orchard Mall Pte Ltd		
Hospitality management income	942	-
Orchard Parksuites Pte Ltd		
Hospitality management income	1,575	-
Oxley Hill Properties Pte Ltd		
Hospitality management income	560	-

Name of interested person	**Aggregate value of all interested person transactions conducted under shareholders' mandate pursuant to Rule 920 of the Listing Manual** (excluding transactions less than S$100,000)	**Aggregate value of all interested person transactions during the financial year under review** (excluding transactions less than S$100,000 and transactions conducted under shareholders' mandate pursuant to Rule 920)
	12 months ended 31 December 2016 S$'000	12 months ended 31 December 2016 S$'000
Riverland Pte Ltd		
Hospitality management income	481	-
Serene Land Pte Ltd		
Hospitality management income	1,842	-
Transurban Properties Pte Ltd		
Hospitality management income	1,915	-
Far East Civil Engineering (Pte.) Limited		
Interest accrued on shareholders' loan(s) extended to Woodlands Square Pte. Ltd. ("WSPL"), a joint venture with an interested person in relation to the development of Woods Square	-	1,998 (2)

NOTES:

1 The capital expenditure committed relates to certain renovation and asset enhancement works in relation to Orchard Parade Hotel (the "Additional Works"). The Company, DBS Trustee Limited (as trustee of Far East H-REIT) and FEO Hospitality Asset Management Pte. Ltd. (as manager of Far East H-REIT) have agreed that the Company's maximum liability for the Additional Works shall not exceed S$4,900,000, which represents approximately 35.25% of the total estimated costs of the Additional Works.

2 The aggregate amount owing by WSPL to Tannery Holdings Pte Ltd, a wholly-owned subsidiary of the Company and a shareholder of WSPL, as at 20 December 2016, is S$146,386,569 (inclusive of interest of S$5,324,720). This aggregate amount was capitalised into redeemable preference shares in the capital of WSPL on 20 December 2016.