

FU YU CORPORATION LIMITED
(Incorporated in the Republic of Singapore)
(Company Registration Number: 198004601C)
(the "**Company**")

RESPONSE TO SGX QUERIES ON THE COMPANY'S ANNUAL REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

The Board of Directors of Fu Yu Corporation Limited (the "**Company**") wishes to announce the following in response to the queries raised by the Singapore Exchange Securities Trading Limited ("**SGX-ST**") on 6 May 2020 in relation to the Company's annual report for the financial year ended 31 December 2019 (the "**Annual Report**"). All capitalised terms used in this announcement shall bear the meaning as ascribed to them in the Annual Report.

SGX-ST's Query 1

Listing Rule 1207(10C) requires the Audit Committee's comments on whether the internal audit function is independent, effective and adequately resourced. Please comply with the said Listing Rule.

The Company's Response to Query 1

Taking into account the matters disclosed on page 46 of the Annual Report and the work performed by the internal auditor, PricewaterhouseCoopers Risk Services Pte Ltd ("**PwC**"), the Audit Committee is satisfied that the internal audit function performed by PwC is independent, effective and adequately resourced.

SGX-ST's Query 2

Listing Rule 710 requires issuers to explicitly state, when deviating from the provisions prescribed in the Code of Corporate Governance 2018 (the "**Code**"), an explanation on how the practices it had adopted are consistent with the intent of the relevant principle. We note that the Company had not complied with Provision 2.4 of the Code as you have not disclosed a board diversity policy and progress made towards implementing the board diversity policy, including objectives, and there were no explanations provided for in your Annual Report on how it is consistent with the intent of Principle 2 of the Code. Please disclose if the Company has a board diversity policy, progress made towards implementing the said policy and if not, how the practices the Company had adopted are consistent with the intent of Principle 2 of the Code, which requires the Board to have an appropriate level of independence and diversity of thought and background in its composition to enable it to make decisions in the best interest of the Company.

The Company's Response to Query 2

As disclosed on page 34 of the Annual Report, the NC is responsible for examining the size and composition of the Board and Board Committees. The Board has no specific policy on gender, age and ethnicity for candidates to be appointed to the Board. The evaluation of the suitability of candidates is based on the candidates' competency, character, time commitment, integrity and experience in meeting the needs of the Company. The NC will, however, continue to take steps to ensure that gender, age and ethnicity of the candidates will be taken into consideration as part of its recruitment exercise.

The Board has taken the following steps to maintain or enhance its balance and diversity:

1. Annual review by the NC to assess if the existing attributes and core competencies of the Directors are complementary to one another and will enhance the efficacy of the Board; and
2. Annual evaluation by the Directors of the skill sets the other Directors possess, with a view to understanding the range of expertise which the Board is lacking.

Taking into account the scope and nature of the operations of the Group, the Board, in concurrence with the NC, is satisfied that the present size of seven (7) Directors, aged between 54 to 69, is appropriate in facilitating effective decision-making. Board members comprise professionals with financial, accounting, legal and industry backgrounds who are able to contribute their area of expertise in leading the Group.

While the Board does not comprise any female director at the moment, its current composition with appropriate mix of expertise and experience enables the Management to benefit from a diverse and objective perspective on any issues raised before the Board. No individual or group dominates the Board's decision-making process.

The Board is therefore of the view that its size, and that of the Board Committees, and level of independence is appropriate and comprises Directors who as a group, have an appropriate balance and mix (as well as breadth and depth) of skills, knowledge and experience, and diversity of thought, so as to foster constructive and robust debate and avoid "groupthink". Hence, while there is no formal board diversity policy, the Board believes that its current composition has an appropriate level of independence and diversity of thought and background to enable it to make decisions in the best interests of the Company, consistent with the intent of Principle 2 of the Code.

SGX-ST's Query 3

Listing Rule 710 requires issuers to explicitly state, when deviating from the provisions prescribed in the Code, an explanation on how the practices it had adopted are consistent with the intent of the relevant principle. We note that the Company had not complied with Provision 8.1 of the Code with regards to the disclosure of remuneration. Please clarify how the practices the Company had adopted are consistent with the intent of Principle 8 of the Code, which requires transparency on the Company's remuneration policies, level and mix of remuneration, the procedure for setting remuneration and the relationships between remuneration, performance and value creation.

The Company's Response to Query 3

The Company has disclosed in the Annual Report the breakdown of the remuneration of each Director, the CEO and the top five key management personnel into types of compensation in percentage terms and in bands of S\$250,000. While the practice in relation to the Directors varies from Provision 8.1 of the Code which requires companies to disclose the specific remuneration of each director, as disclosed in the Annual Report, the Board is of the opinion that full disclosure of the Directors' remuneration may have a negative impact on the Company, taking into consideration the competitive business environment in which the Company operates and the sensitivity and confidential nature of such disclosure.

The Company is of the view that its corporate governance practice on this aspect is consistent with the intent of Principle 8. The Company has disclosed in the Annual Report, the aggregate remuneration paid or payable to the Company's Directors for the financial year ended 31 December 2019 (on page 42 of the Annual Report). The Company has also given detailed disclosure on its remuneration policy

and criteria for setting remuneration, as well as the relationship between remuneration, performance and value creation (see Principle 7: Level and Mix of Remuneration). The Company therefore believes that, taken as a whole, the disclosures provided are meaningful and sufficiently transparent in giving an understanding of the remuneration of its Directors and the CEO, consistent with the intent of Principle 8.

SGX-ST's Query 4

Listing Rule 710 requires issuers to explicitly state, when deviating from the provisions prescribed in the Code, an explanation on how the practices it had adopted are consistent with the intent of the relevant principle. We note that the Company had not complied with Provision 8.2 of the Code with regards to the disclosure of remuneration (and in particular, whether the disclosures pertaining to employees who are substantial shareholders), and there were no explanations provided for in your Annual Report on how it is consistent with the intent of Principle 8 of the Code. Please clarify how the practices the Company had adopted are consistent with the intent of Principle 8 of the Code, which requires transparency on the Company's remuneration policies, level and mix of remuneration, the procedure for setting remuneration and the relationships between remuneration, performance and value creation.

The Company's Response to Query 4

As disclosed on page 133 of the Annual Report, Mr. Ching Heng Yang, Mr. Tam Wai and Mr. Ho Nee Kit, who are Executive Directors, are substantial shareholders of the Company. Their remuneration is already disclosed in bands of S\$250,000 on page 42 of the Annual Report. Whilst the disclosure in bands of S\$250,000 varies from Provision 8.2 of the Code which requires companies to disclose the remuneration of employees who are also substantial shareholders of the Company, in bands no wider than S\$100,000, explanation has been given as to why full disclosure of the exact amount of the remuneration of the Directors may have a negative impact on the Company.

The Company is of the view that its current disclosure is consistent with the intent of Principle 8, as shareholders are given information on the level and mix of remuneration in percentage terms of the individual Directors. As stated above, the Company has also given detailed disclosure on its remuneration policy and criteria for setting remuneration, as well as the relationship between remuneration, performance and value creation (see Principle 7: Level and Mix of Remuneration). The Company therefore believes that, taken as a whole, the disclosure provided is meaningful and sufficiently transparent, consistent with the intent of Principle 8.

Save as disclosed above, the Company confirms that there are no employees of the Group who are substantial shareholders, or are immediate family members of a Director, the CEO or a substantial shareholder of the Company, and whose remuneration exceeded S\$100,000 during the financial year ended 31 December 2019.

SGX-ST's Query 5

Listing Rule 719 requires the Board to comment on the adequacy and effectiveness of the internal controls, including financial, operational, compliance and information technology controls, and risk management systems. We note that the Board has not commented on the adequacy of the risk management systems on page 44 of the Annual Report. Please clarify accordingly.

The Company's Response to Query 5

As stated on page 44 of the Annual Report, based on the framework of risk management controls and internal controls established and maintained by the Group, reports and reviews done by the internal and external auditors, including the reviews by the Management and the non-existence of any critical internal control deficiencies, the Board has received assurance from the CEO and CFO that the financial records have been properly maintained and the financial statements give a true and fair view of the Company's operations and finances, as well as assurance from the CEO and other key management personnel who are responsible, that the Company's risk management and internal control systems are adequate and effective.

Accordingly, the Board with the concurrence of the AC is of the opinion that there are adequate internal controls in place within the Group addressing financial, operational, compliance and information technology risks and that the internal controls and risk management systems are adequate and effective as at 31 December 2019. During FY2019, there were no material weaknesses identified in the Company's internal controls or risk management systems.

By order of the Board
Fu Yu Corporation Limited

Kong Wei Fung
Company Secretary
Singapore, 11 May 2020