

Annual Report 2016



CORPORATE INFORMATION

BOARD OF DIRECTORS

Dr John Chen Seow Phun,
Chairman
Ching Heng Yang, *Vice Chairman*
Tam Wai
Ho Nee Kit
Hew Lien Lee
Tan Yew Beng
Foo Say Tun

EXECUTIVE DIRECTORS

Ching Heng Yang
Tam Wai
Ho Nee Kit
Hew Lien Lee

NON-EXECUTIVE DIRECTORS

Dr John Chen Seow Phun
Tan Yew Beng
Foo Say Tun

AUDIT COMMITTEE

Dr John Chen Seow Phun,
Chairman
Tan Yew Beng
Foo Say Tun

NOMINATING COMMITTEE

Foo Say Tun, *Chairman*
Dr John Chen Seow Phun
Tan Yew Beng

REMUNERATION COMMITTEE

Tan Yew Beng, *Chairman*
Dr John Chen Seow Phun
Foo Say Tun

COMPANY SECRETARY

Teo Meng Keong
Kong Wei Fung

REGISTERED OFFICE

8 Tuas Drive 1
Singapore 638675
Tel : (65) 6578 7338
Fax: (65) 6578 7347
Website: www.fuyucorp.com

SHARE REGISTRAR

Boardroom Corporate &
Advisory Services Pte. Ltd.
50 Raffles Place
#32-01 Singapore Land Tower
Singapore 048623

EXTERNAL AUDITORS

KPMG LLP
16 Raffles Quay
#22-00 Hong Leong Building
Singapore 048581

Audit Partner: Kum Chew Foong
Since financial year 2015

BANKERS

DBS Bank Ltd
Malayan Banking Berhad
RHB Bank Berhad
The Bank of East Asia, Limited

INVESTOR RELATIONS CONSULTANT

Octant Consulting
7500A Beach Road
The Plaza #04-329
Singapore 199591
Tel : (65) 6296 3583

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CORPORATE PROFILE

Fu Yu Corporation Limited (“Fu Yu”) provides vertically-integrated services for the manufacture of precision plastic components and the fabrication of precision moulds and dies.

Since its inception in 1978, the Group has grown to become one of the largest manufacturers of high precision plastic parts and moulds in Asia. Today, the Group has established a strong presence in the region with manufacturing facilities located in Singapore, Malaysia and China.

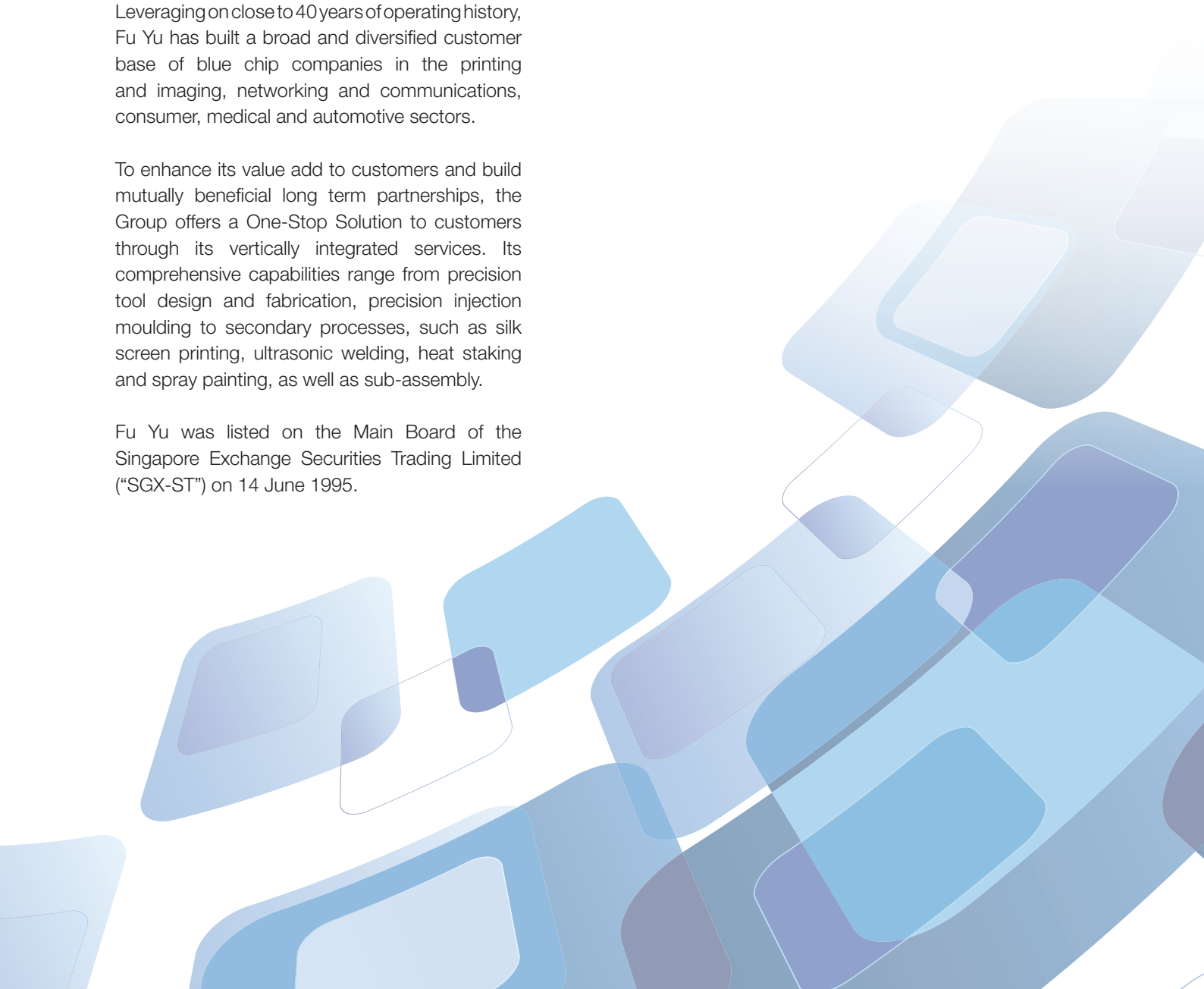
Leveraging on close to 40 years of operating history, Fu Yu has built a broad and diversified customer base of blue chip companies in the printing and imaging, networking and communications, consumer, medical and automotive sectors.

To enhance its value add to customers and build mutually beneficial long term partnerships, the Group offers a One-Stop Solution to customers through its vertically integrated services. Its comprehensive capabilities range from precision tool design and fabrication, precision injection moulding to secondary processes, such as silk screen printing, ultrasonic welding, heat staking and spray painting, as well as sub-assembly.

Fu Yu was listed on the Main Board of the Singapore Exchange Securities Trading Limited (“SGX-ST”) on 14 June 1995.

MISSION STATEMENT

Fu Yu aims to be the preferred global partner in engineering plastic products, from design to full assembly. We will deliver our vision through: embracing technology and creativity; providing satisfaction to our customers; continuous learning for our people; and maximising returns to our shareholders.



CHAIRMAN'S MESSAGE



Dr John Chen Seow Phun

DEAR SHAREHOLDERS,

On behalf of the Board of Directors, I am pleased to present Fu Yu Corporation Limited's ("Fu Yu" or the "Group") annual report for the financial year ended 31 December 2016 ("FY2016").

The industry in which the Group operates continued to experience challenging conditions during FY2016 as demand from end-users was affected by the sluggish global macroeconomic environment. This in turn led to a general slowdown in order momentum from customers which resulted in a 10.7% decline in the Group's revenue to S\$198.6 million in FY2016. The Group's largest operations in China witnessed the highest sales decrease in Singapore dollar terms during FY2016 as compared to our Singapore and Malaysia segments.

Despite recording lower revenue, the Group was able to improve its gross profit margin to 16.3% in FY2016 from 15.9% in FY2015. This was achieved on the back of our

Our Board has recommended to maintain the Group's dividend at 1.5 cents per share in respect of FY2016. While the global economic outlook remains uncertain, we believe the Group has a sound financial position to weather slower market conditions.

management team's consistent efforts to ensure that the Group's operating structure is aligned with prevailing market conditions. During the year, we continued to focus on improving the productivity, operational efficiency and cost-effectiveness of our manufacturing facilities by actively pursuing lean management. In addition, we continued to keep a tight rein on our selling and administrative expenses which declined 5.4% to S\$27.9 million in FY2016.

These efforts have helped to buffer the impact of weaker market demand and lower foreign exchange gain on the Group's net profit attributable to owners of the company, which eased 25.1% to S\$10.5 million in FY2016.

Notwithstanding the softer bottom line performance, our Board of Directors has recommended to maintain the Group's dividend at 1.5 cents per share in respect of FY2016 to reward shareholders for their loyalty and support.

As such, we have proposed the payment of a final tax exempt dividend of 1.0 cent per share, subject to shareholders' approval at the upcoming Annual General Meeting, on top of the interim dividends of 0.5 cent per share. Based on the Group's earnings per share of 1.4 cents for FY2016, the total dividend translates to a payout ratio of 107%. This exceeds the dividend policy that the Group adopted in April 2016, which is to distribute at least 50% of profit after income tax attributable to owners of the Company as dividends.

The Group's ability to deliver a consistent reward to shareholders is underpinned by our robust financial position as we place high emphasis on sustaining the strength of our balance sheet. Indeed, the Group remained in a sound financial position with a cash balance of S\$105.6 million and zero debt as at 31 December 2016. Our shareholders' equity stood at S\$173.5 million, which is equivalent to a net asset value of 23.05 cents per share and includes cash and cash equivalents of 14.03 cents per share.

Looking ahead, the business environment is likely to remain challenging as the prevailing uncertainties surrounding the global economic outlook should continue to dampen end-user demand. Given this backdrop, we expect intense competition in the industry and continued pressure on product selling prices. As the Group is in net US Dollar assets position, fluctuations in the US Dollar will also have an effect on our financial performance.

With our sound financial backing, we believe the Group is in a strong position to weather the current slowdown in the global economy. In addition, we have built an

excellent reputation as a reliable and preferred supplier of one-stop precision plastic manufacturing solutions, and an established track record for supporting our customers in the printing and imaging, networking and communications, consumer, medical and automotive sectors. These attributes will continue to form the cornerstone of the Group's strong competitive edge in the precision plastic components manufacturing field.

In tandem with ongoing initiatives to improve our cost and operational efficiencies, the Group's focus will now be on driving top line growth and improving the utilisation rates of our plants. Hence, we will be stepping up our efforts on various business development initiatives to expand market share with both our existing and new customers.

As part of our sales expansion strategy, the Group will continue to focus on increasing the diversity of our customer base to improve the revenue contributions from sectors that exhibit greater long term stability such as medical and automotive. At the same time, we will also be continually evaluating and refreshing our product portfolio to enhance our sales mix and achieve better margins. By keeping our fingers on the pulse of new market trends and customers' developments, the Group will ensure it is well-positioned to broaden our product portfolio and seize opportunities in market segments with higher growth potential such as 3D printing, security-related, medical and green products.

APPRECIATION

In closing, I would like to thank my fellow directors for their support and valuable counsel. On behalf of the Board, I would like to express our appreciation to the management and staff for their contributions and commitment. We also wish to thank our valued customers, shareholders, business partners and suppliers for their continued support and patronage.

DR JOHN CHEN SEOW PHUN
Chairman

OPERATIONS REVIEW

REVENUE

For the year ended 31 December 2016 ("FY2016"), the Group registered a 10.7% decrease in revenue to S\$198.6 million from S\$222.5 million in FY2015. This decline was attributed mainly to a general slowdown in demand from customers.

GROSS PROFIT AND GROSS PROFIT MARGIN

Gross profit in FY2016 decreased 8.6% to S\$32.4 million from S\$35.5 million in FY2015. Notwithstanding lower revenue in FY2016, the Group improved its gross profit margin to 16.3% compared to 15.9% in FY2015.

The increase in gross profit margin was due mainly to (i) a decrease in depreciation charge of S\$4.0 million for production assets that have been fully depreciated but are still in use as a result of good maintenance and upkeep; (ii) appreciation in the average exchange rate of the US Dollar against the Singapore Dollar, Malaysia Ringgit and Chinese Renminbi in translating foreign currency transactions during FY2016 as compared to FY2015; and (iii) better cost management and more efficient utilisation of the Group's manufacturing facilities.

OTHER INCOME

The Group recorded other income of S\$8.7 million in FY2016, down 10.0% from S\$9.6 million in FY2015. This was attributed mainly to lower rental income and the absence of a gain on liquidation of a subsidiary.

SELLING AND ADMINISTRATIVE EXPENSES

In tandem with lower revenue and its continual cost management efforts, the Group saw a 5.4% decline in selling and administrative expenses to S\$27.9 million from S\$29.5 million in FY2015. The decrease stemmed primarily from lower staff cost and other general administrative expenses.

OTHER OPERATING INCOME/(EXPENSES)

The Group recorded other operating income of S\$1.6 million in FY2016, a decrease of 33.3% from S\$2.4 million in FY2015 due mainly to lower foreign exchange gain for the period under review.

The Group recognises foreign exchange gains or losses as a result of the translation of receivables, cash, payables and borrowings denominated in foreign currencies to the functional currencies of the respective companies in the Group as at each reporting date. As the Group is in net US Dollar assets position, the appreciation of the US Dollar against the Singapore Dollar and Malaysia Ringgit resulted in a foreign exchange gain in FY2016.

PROFITABILITY

The Group's profit before tax in FY2016 decreased 19.1% to S\$14.9 million compared to S\$18.4 million in FY2015. This was attributable to reduced gross profit, other income and foreign exchange gain in FY2016. After deducting tax expenses, the Group's net profit attributable to owners of the company decreased 25.1% to S\$10.5 million in FY2016 from S\$14.1 million in FY2015.

FINANCIAL POSITION

The Group closed the financial year under review with a robust financial position comprising a cash balance of S\$105.6 million and zero borrowings. Shareholders' equity stood at S\$173.5 million, equivalent to 23.05 cents per share as at 31 December 2016.

Total assets as at 31 December 2016 decreased S\$7.4 million to S\$241.5 million due mainly to a reduction in property, plant and equipment, as well as trade and other receivables. Total liabilities also dropped by S\$2.7 million to S\$48.4 million due mainly to a reduction in trade and other payables.

During FY2016, the Group generated net cash from operating activities of S\$21.0 million. Net cash used in investing activities amounted to S\$3.2 million due mainly to capital expenditure. The Group also used net cash of S\$12.8 million in financing activities primarily for the payment of dividends to shareholders of the Company and non-controlling interests of a subsidiary. As a result, the Group recorded a net increase in cash and cash equivalents of S\$5.0 million to close the financial year with cash and cash equivalents of S\$102.6 million (excluding cash deposits pledged of S\$3.0 million).



GEOGRAPHICAL SEGMENT REVIEW

SINGAPORE

The Group's operations in Singapore reported revenue of S\$39.1 million in FY2016, down S\$5.9 million from S\$45.0 million in FY2015. This was due mainly to softer demand for products in the printing & imaging, consumer as well as medical segments. Singapore segment contributed 19.7% to Group revenue in FY2016.

Excluding dividend income from Malaysia and China subsidiaries totalling S\$14.1 million, Singapore segment would have recorded a profit of S\$4.7 million in FY2016 which represented a decrease of S\$4.3 million from S\$9.1 million reported in FY2015. This decline can be attributed to lower revenue and net foreign exchange gain in FY2016.

CHINA

Sales derived from the operations in China slowed to S\$121.9 million in FY2016, a decrease of S\$14.8 million from S\$136.7 million in FY2015. This was caused primarily by slower orders for the printing & imaging, networking & communications and consumer segments.

Nevertheless, China operations remained as the Group's largest geographical segment with a revenue contribution of 61.4% in FY2016.

Notwithstanding lower revenue, China operations posted an increase in segment profit of S\$2.7 million to S\$6.5 million in FY2016 from S\$3.8 million in FY2015. This was attributable mainly to an improvement in operational efficiency and lower depreciation expenses, which were partially offset by a net foreign exchange loss.

MALAYSIA

Malaysia segment witnessed a decline in revenue to S\$37.6 million in FY2016, down S\$3.2 million from S\$40.8 million in FY2015. This was attributed primarily to reduced customer orders and the impact of the depreciation of the Malaysia Ringgit against the Singapore Dollar. Malaysia segment contributed 18.9% to Group revenue in FY2016.

In line with lower revenue and net foreign exchange gain, segment profit from Malaysia decreased S\$2.5 million to S\$5.6 million in FY2016 from S\$8.1 million in FY2015.

FINANCIAL HIGHLIGHTS

Financial year ended 31 December

INCOME STATEMENT SUMMARY

| (S\$ million) | FY2016 | FY2015 | Change |
|---|--------|--------|---------|
| Revenue | 198.6 | 222.5 | (10.7%) |
| Gross Profit Margin | 16.3% | 15.9% | 0.4ppt |
| Profit Before Tax | 14.9 | 18.4 | (19.1%) |
| Net Profit Attributable to Owners of the Company (PATMI) | 10.5 | 14.1 | (25.1%) |
| Earnings Per Share (Cents) | 1.40 | 1.87 | (25.1%) |

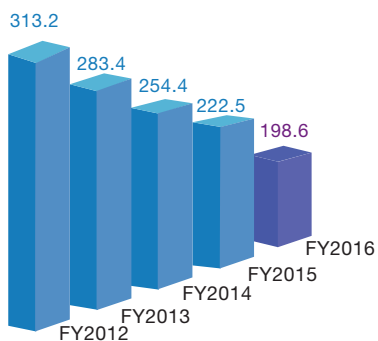
BALANCE SHEET SUMMARY

| (S\$ million) | As at 31 December 2016 | As at 31 December 2015 |
|--------------------------------------|------------------------|------------------------|
| Total Non-Current Assets | 60.2 | 65.9 |
| Total Current Assets | 181.4 | 183.0 |
| Total Non-Current Liabilities | 0.6 | 1.0 |
| Total Current Liabilities | 47.8 | 50.1 |
| Shareholders' Equity | 173.5 | 178.1 |
| <i>Cash and cash equivalents</i> | 105.6 | 102.9 |
| <i>NAV per share (cents)</i> | 23.05 | 23.65 |

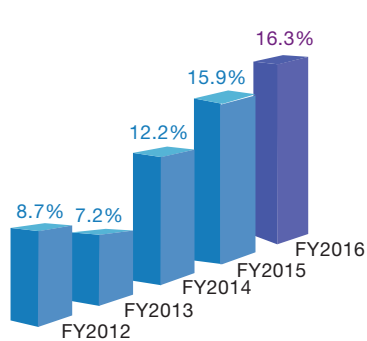
KEY FINANCIAL RATIOS

| | FY2016 | FY2015 |
|--|-----------------|-----------------|
| Gearing | Zero borrowings | Zero borrowings |
| Return on Equity (excluding cash) | 15.5% | 18.7% |
| Dividend Per Share | 1.5 cents | 1.5 cents |
| Dividend Payout | 107% | 80% |

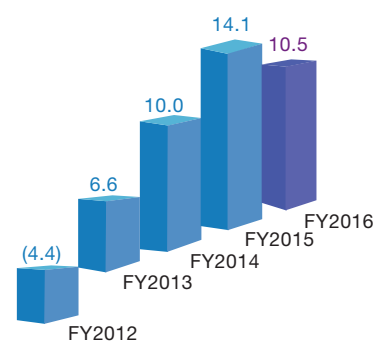
Revenue (S\$ million)



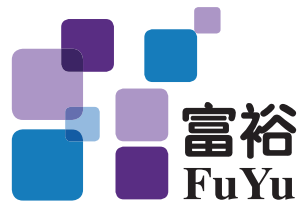
Gross Profit Margin



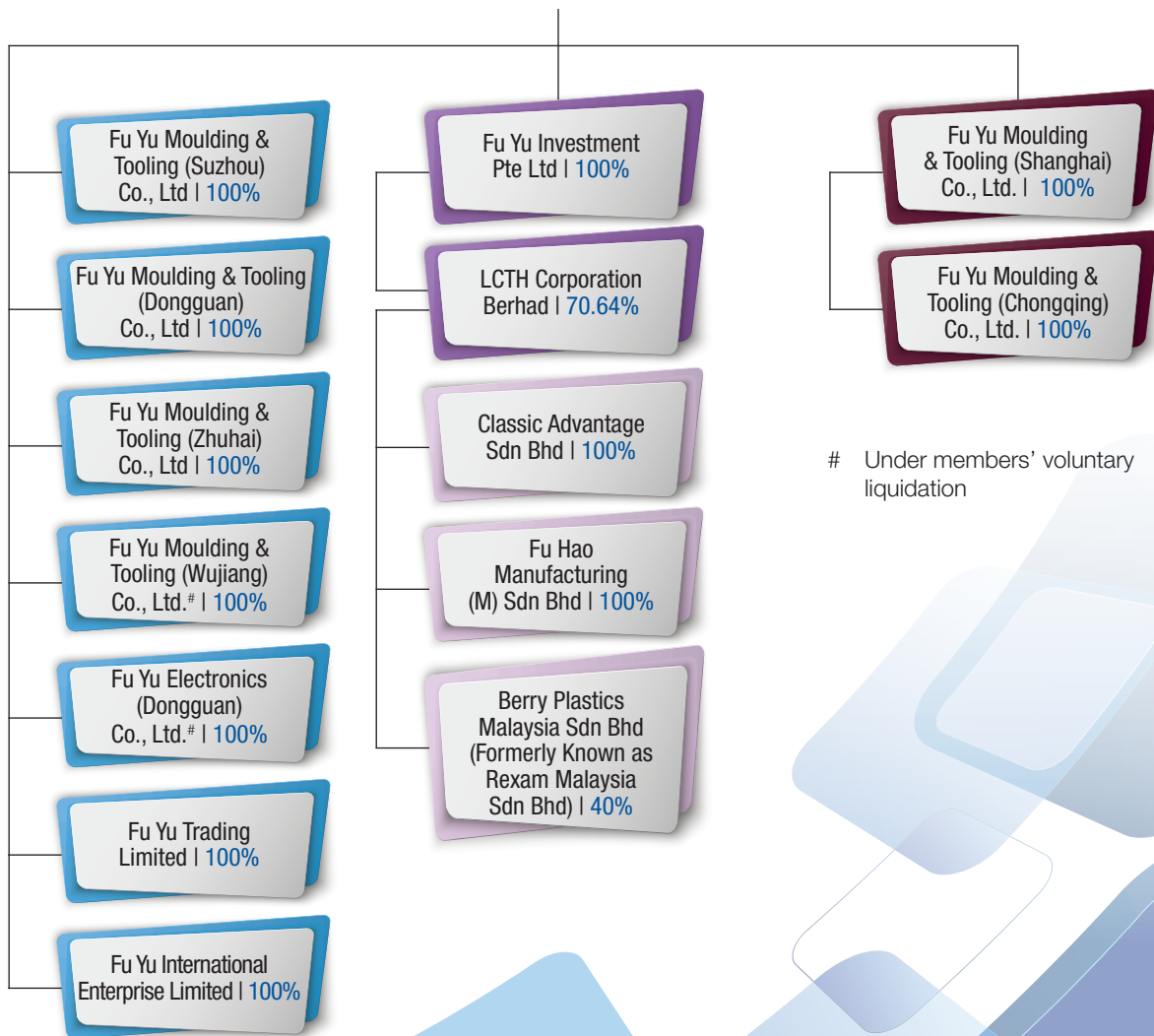
PATMI (S\$ million)



GROUP STRUCTURE



FU YU CORPORATION LIMITED



BOARD OF DIRECTORS



*Left to right:
John Chen Seow Phun,
Ching Heng Yang,
Tam Wai,
Ho Nee Kit*

DR JOHN CHEN SEOW PHUN

*Non-Executive Chairman,
Independent Director*

Dr John Chen Seow Phun, 63, was appointed as Non-Executive Chairman and Independent Director of the Company on 27 November 2007 and was last re-elected on 26 April 2016. He is the Chairman of the Audit Committee and member of the Nominating and Remuneration Committees.

Dr Chen was a Member of Parliament from 1998 to 2006. He was the Assistant Secretary General of the NTUC from 1991 to 1997 and served as the Deputy Chairman and Managing Director of NTUC Healthcare Co-op from 1992 to 1997. From March 1997 to June 1999, he was the Minister of State, Ministry of Communications. And from June 1999 to November 2001, he was the Minister of State, Ministry of Communications & Information Technology as well as Ministry of National Development. Prior to joining the Government in 1997, Dr Chen has served as a Board Member of the Economic Development Board, the Housing and Development Board, the Port of Singapore Authority and Singapore Power Ltd.

Dr Chen is presently the Executive Chairman of Pavillon Holdings Ltd (formerly known as Thai Village Holdings Ltd) and the Chairman of SAC Capital Pte Ltd. He also sits on the board of a number of publicly listed companies.

Dr Chen holds a PhD in Electrical Engineering from the University of Waterloo, Canada. He taught at the National University of Singapore from 1983 to 1991.

At 31 December 2016, Dr Chen holds 0.13% direct interest in the Company.

CHING HENG YANG

Vice Chairman, Executive Director

Mr Ching, 66, one of the co-founders of Fu Yu, is the Vice Chairman and Executive Director of the Group. Mr Ching was appointed as the Executive Director on 10 December 1980 and was last re-elected on 30 April 2015. He will stand for re-election as a Director in the forthcoming Annual General Meeting ("AGM"). Mr Ching is also an Executive Director of LCTH Corporation Berhad ("LCTH"), the Malaysia subsidiary of Fu Yu Group, listed on the Main Board of Bursa Malaysia Securities Berhad, Malaysia on 8 November 2004.

Mr Ching oversees the plastic injection moulding, finishing and sub-assembly operations of the Group. He is also responsible for the investment in factory buildings and machinery of the Group. Mr Ching has over 42 years of experience in the mould fabrication and plastic injection moulding industry.

Mr Ching is a member of the Singapore Institute of Directors.

At 31 December 2016, Mr Ching holds 11.81% direct interest in the Company.

TAM WAI

Executive Director

Mr Tam, 66, one of the co-founders of Fu Yu, is the Executive Director of the Group. He was appointed as the Executive Director on 10 December 1980 and was last re-elected on 26 April 2016. Mr Tam is also an Executive Director of LCTH.

Mr Tam oversees the mould design and fabrication operations of the Group. Prior to joining Fu Yu, he was involved in mould design and fabrication for ten years in Hong Kong specialising in high precision moulds for the electronics and electrical industries. Mr Tam has over 47 years of experience in the mould fabrication and plastic injection moulding industry.

Mr Tam is a member of the Singapore Institute of Directors.

At 31 December 2016, Mr Tam holds 12.84% direct and 0.04% deemed interests in the Company.

HO NEE KIT

Executive Director

Mr Ho, 63, one of the co-founders of Fu Yu, is the Executive Director of the Group. He was appointed as the Executive Director on 10 December 1980 and was last re-elected on 26 April 2016. Mr Ho is also an Executive Director of LCTH.

Mr Ho jointly oversees the mould fabrication, plastic injection moulding, finishing and sub-assembly



*Left to right:
Hew Lien Lee, Tan Yew Beng, Foo Say Tun*

operations of the Group. Prior to joining Fu Yu, Mr Ho worked for a plastic injection company as a tool maker. Realising the potential of the precision mould making industry in the 1970s, together with three other partners who also shared the same vision of the industry, they founded Fu Yu in 1978.

Mr Ho is a member of the Singapore Institute of Directors.

At 31 December 2016, Mr Ho holds 12.88% direct interest in the Company.

HEW LIEN LEE

*Executive Director,
Chief Executive Officer and
Chief Operating Officer*

Mr Hew, 60, was appointed as Executive Director and Chief Operating Officer of the Company on 22 March 2007. Mr Hew was appointed acting Chief Executive Officer on 21 May 2014 and was promoted to Chief Executive Officer of the Group on 26 February 2016. He was last re-elected on 30 April 2015. Mr Hew is also the Managing Director of LCTH.

Mr Hew joined Fu Yu in 1984 and holds a Diploma in Electrical Engineering. With 37 years of experience in the plastic injection moulding industry, he has played an instrumental role in the successful listing of LCTH. He is responsible for the overall strategic direction and management of the Group.

Mr Hew is a member of the Singapore Institute of Directors.

As at 31 December 2016, Mr Hew holds 1.08% direct interest in the Company.

TAN YEW BENG

*Non-Executive Director,
Independent Director*

Mr Tan, 60, was appointed as Director on 22 May 1995 and was last re-elected on 30 April 2015. He will stand for re-election as a Director in the forthcoming AGM. Mr Tan is the Chairman of the Remuneration Committee and member of the Audit and Nominating Committees. He is also a director of several Singapore and Malaysia companies.

Mr Tan holds a Bachelor of Commerce Degree from Nanyang University, Graduate Diploma in Marketing Management from the Singapore Institute of Management and Diploma in Marketing from the Institute of Marketing, United Kingdom.

Mr Tan is serving actively in several social, education and community organisations. In recognition of his contribution to the community, Mr Tan was awarded the Public Service Medal (Pingkat Bakti Masyarakat – PBM) in 2008 and subsequently the Public Service Star (Bintang Bakti Masyarakat – BBM) in 2013. He is also a member of the Singapore Institute of Directors.

At 31 December 2016, Mr Tan holds 0.34% direct interest in the Company.

FOO SAY TUN

*Non-Executive Director,
Independent Director*

Mr Foo, 51, was appointed as Director on 27 November 2007 and was last re-elected on 29 April 2014. He will stand for re-election as a Director in the forthcoming AGM. Mr Foo is presently the Chairman of the Nominating Committee and a member of the Audit and Remuneration Committees.

Mr. Foo was a lawyer practicing civil and commercial litigation, arbitration and corporate law. Mr. Foo was called to the Malaysia Bar in 1992 and the Singapore Bar in 1995. He holds a Bachelor of Laws degree from the University of East Anglia (UK), and was admitted to Middle Temple (UK) as a Barrister-at-Law in 1991. Mr. Foo also serves as an independent director on another SGX-ST listed company, Moneymax Financial Services Ltd.

As at 31 December 2016, Mr Foo does not hold any direct or indirect interest in the Company.

KEY EXECUTIVES



HEE SIEW FONG

Chief Financial Officer

Ms Hee, 45, joined the Group as Chief Financial Officer on 9 June 2016. She oversees the financial and management accounting of our Group. Prior to joining Fu Yu, Ms Hee was the Chief Financial Officer of MFS Technology Ltd, Group Chief Financial Officer of Auric Pacific Group Limited, Group Financial Controller of SATS Ltd and Asia Enterprises Holding Limited. She has more than 20 years of experience in finance and accounting. She is a member of both The Institute of Singapore Chartered Accountants and The Certified Public Accountants Australia. She holds a Bachelor of Accountancy (Honours) degree from the Nanyang Technological University and a Master's degree in Business Administration from the National University of Singapore.

CHEONG HOCK YAN

Group Business Development Director

Mr. Cheong, 54, joined the Group in July 2016 as Group Business Development Director. He is responsible for formulating the Group's business development strategy, developing new business/market opportunities, growing existing business and proposing direction for product development. He has 30 years of regional business development experience, holding middle to senior management positions. Mr. Cheong started his career with Archive Singapore Pte Ltd in 1987 as a Test Engineer and was subsequently the Plant Manager for Digital Appliance Controls Singapore Pte Ltd. Between 1999 to 2008, he held senior positions in Technomatix-Unicam Singapore Pte Ltd, Fuji Machines Singapore Pte Ltd, Schmidt China Ltd and Siemens Electronics Assembly Systems China Ltd. Before joining Fu Yu, Mr. Cheong was the Senior Business Development Manager for Venture Corporation since 2009. He holds a Bachelor of Engineering Degree from National University of Singapore and a Master's degree in Business Administration from Nanyang Technological University.

TAN LAY KHENG

Group Human Resource Director

Madam Tan, 63, was the Group Human Resource Manager before she is promoted to Group Human Resource Director in October 2008. She joined Fu Yu on 5 August 1996 and oversees the management and development of the human resources across the Group. She is also responsible for the administrative function of the Group. Prior to joining the Group, Madam Tan was with NTUC Research Unit from 1975 to 1996. She has over 40 years of experience in Industrial Relations Management and holds a Bachelor of Art Degree from Nanyang University of Singapore.

OUR NETWORK

SINGAPORE

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MALAYSIA

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Johor, Malaysia
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CHINA

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Fax: (86769) 8982 1815

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888 Xin Ling Road
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Shanghai, China 200131
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Fax: (8621) 5046 0229

FU YU MOULDING & TOOLING (SUZHOU) CO., LTD

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Wuzhong Economic Skill Development Zone
Suzhou, China 215128
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Fax: (86512) 6563 9463

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Jin Wan District, Zhuhai
Guangdong, China 519040
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Fax: (86756) 7761 851

FU YU MOULDING & TOOLING (CHONGQING) CO., LTD

Blk 2 & 3, 18 Shi Gui Ave, Jie Shi Town
Banan District
Chongqing, China 401346
Tel: (8623) 6121 9988
Fax: (8623) 6121 9988-690



CORPORATE MILESTONES

- Amalgamation with Nanotechnology Manufacturing Pte. Ltd. and Solidmicron Technologies Pte. Ltd., in Singapore

2017

- Adopted dividend policy to distribute at least 50% of profit attributable to the owners of the Company
- Acquired remaining 20% equity interest in NanoTechnology Manufacturing Pte. Ltd. from EDB Ventures Pte Ltd

2016

- Completed capital reduction and cash distribution to shareholders
- Set up new plant in Chongqing, China
- Set up new plant in Senawang*, Malaysia by Classic Advantage Sdn Bhd

2011 – 2015

- Set up new plant in Shenzhen*, China
- Completed Capital Repayment and Shares Consolidation of LCTH Corporation Berhad
- Implemented SAP ERP System at Fu Yu Moulding & Tooling (Suzhou) Co., Ltd, China
- Set up new plant in Wuxi*, China
- Incorporated SolidMicron Technologies Pte. Ltd., Singapore

2006 – 2010

- LCTH Corporation Bhd (Malaysia) entered into a Memorandum of Understanding with Knobs Sdn Bhd (Malaysia) to form a strategic alliance
- Implemented SAP ERP System at Fu Yu Moulding & Tooling (Dongguan) Co., Ltd, China
- Incorporated Fu Yu Electronics (Dongguan) Co., Ltd, China

2005

- Changed the Company's name from Fu Yu Manufacturing Limited to Fu Yu Corporation Limited
- Listing of the Group's Malaysian operations under LCTH Corporation Berhad on the Main Board of Bursa Malaysia Securities Berhad
- Expanded manufacturing capacity in Johor, Malaysia
- Joint venture with EDB Ventures Pte. Ltd. to incorporate NanoTechnology Manufacturing Pte. Ltd. in Singapore
- Set up new plants in Wujiang* and Qingdao*, China
- Set up additional plant in Shanghai, China

2004

- Set up new plant in Zhuhai, China
- Implemented SAP ERP System in Singapore
- Built additional factory for plant in Suzhou, China
- Implemented SAP Enterprise Resource Planning (ERP) System for plants in Johor, Malaysia
- Built additional warehouse for plant in Tianjin*, China

2001 – 2003

- Set up new plants in Suzhou, China and Guadalajara*, Mexico
- Started precision tooling activity in Singapore
- Set up plant in Senai (Johor), Malaysia
- Established R&D division for product design, 3D, IMold and CAD/CAM
- Set up new plant in Shanghai, China

1996 – 2000

- Listed on the Main Board of the SGX-ST
- Set up new plant in Dongguan, China
- Set up new plants in Kluang*, Malaysia and Tianjin*, China
- Commenced overseas expansion by setting up new plant in Penang, Malaysia

1990 – 1995

1978

- Established and commenced operations in Singapore

* Ceased operations

AWARDS AND CERTIFICATIONS

AWARDS RECEIVED BY FU YU GROUP IN YEAR 2016

| Company | Awards |
|----------------------------------|---|
| Fu Yu Corporation Limited | Singapore International 100 Company 2016; Singapore 1000 Company 2016 |
| Fu Hao Manufacturing (M) Sdn Bhd | Preferred Supplier Award 2016 from Bosch Group |

CORPORATE ISO AND QS CERTIFICATION FOR FU YU GROUP AS AT END OF YEAR 2016

| Company | ISO 9001:2008 | ISO 13485:2012 | ISO 14001:2004 | TS 16949:2009 |
|---|---------------|----------------|----------------|---------------|
| Fu Yu Corporation Limited | ^ | | ^ | |
| Classic Advantage Sdn Bhd | ^ | | ^ | ^ |
| Fu Hao Manufacturing (M) Sdn Bhd | ^ | | ^ | ^ |
| SolidMicron Technologies Pte Ltd [△] | ^ | | | ^ |
| NanoTechnology Manufacturing Pte Ltd [△] | ^ | ^ | ^ | |
| Fu Yu Moulding & Tooling (Dongguan) Co., Ltd. | ^ | | ^ | ^ |
| Fu Yu Moulding & Tooling (Shanghai) Co., Ltd. | ^ | | ^ | ^ |
| Fu Yu Moulding & Tooling (Suzhou) Co., Ltd. | ^ | ^ | ^ | ^ |
| Fu Yu Moulding & Tooling (Zhuhai) Co., Ltd. | ^ | | ^ | ^ |
| Fu Yu Moulding & Tooling (Chongqing) Co., Ltd. | ^ | | ^ | ^ |

2017 CORPORATE CERTIFICATION PLAN

| Company | Plan |
|---|----------------|
| Fu Hao Manufacturing (M) Sdn Bhd | ISO 13485:2016 |
| Fu Yu Moulding & Tooling (Shanghai) Co., Ltd. | ISO 13485:2016 |

[△] Amalgamated with Fu Yu Corporation Limited with effect from 28 February 2017.

CORPORATE SOCIAL RESPONSIBILITY

Fu Yu strives to be a sustainable and socially responsible company by integrating ethical, environmental and social imperatives into the way we work. We aim to maximise the value to all our stakeholders and achieve a positive impact on the society by adopting good corporate social responsibility practices.

These include upholding high standards of corporate governance and business integrity, ensuring fair employment practices and work safety, providing support for continuous learning, as well as caring for our environment and the community. We review and update our corporate social responsibility policy regularly to align our practices with the trends in the society.

EMPLOYMENT PRACTICES

Fu Yu's policy stipulates fair and equal opportunities to all employees and job applicants. Our selection and recruitment criteria is based on an applicant's skills, experience and/or ability to perform the job, regardless of age, gender, race, religion and family status or disability.

We recognise that employees are our most valuable asset and we reward them fairly based on their abilities, work performance, contributions and experience. We strictly forbid the use of child labour, forced, bonded or indentured labour including debt bondage, involuntary prison labour and slavery or trafficking of persons in the Group. We treat our employees with respect and dignity and will not tolerate disrespectful, hostile, violent, intimidating, or threatening behaviour in our workplace. Sexual advances, actions or comments, or racial or religious slurs are also unacceptable.

To help our employees achieve their full potential, the Group provides them with opportunities to be considered for training and personal development based on their strengths and needs. The Group is supportive of work-life balance and organises recreational activities such as food fairs, festive celebrations, team building, dinner & dance for our employees on a regular basis. These activities are well received and have helped to promote greater interaction and better understanding amongst employees.



Team building activities

OCCUPATIONAL HEALTH AND SAFETY

Fu Yu recognises that good health and safety measures improve work effectiveness and employees' morale. Hence, the Group has put considerable efforts into creating a conducive and safe working environment. We have a Workplace Safety and Health Committee which meets regularly to review overall performance in health and safety practices, and initiates various programmes and activities to raise occupational health and safety (OHS) awareness. Safety briefings are also conducted for all new employees during their induction training. The Group also carries out ongoing programs to reinforce OHS requirements, in-house safety rules and job specific requirements.



Fire drill exercise

Furthermore, regular inspections are carried out to ensure our Group's infrastructure is well maintained. We are continually seeking to improve the workplace conditions by proactively identifying potential hazards and risks, establishing better measurement methods to monitor the working environment and obtaining the necessary legal permit/licences.

ETHICS AND ANTI-CORRUPTION POLICIES

Fu Yu has zero tolerance for unethical and corrupt practices. Our Management takes a leadership position in fostering a strong corporate governance culture and implementing policies that promote ethical behaviour.

We conduct our business with integrity and fairness and we endeavour to protect customers' competitive data, proprietary information and other intellectual property. We are committed to lawful and ethical competition based on the merits of our products and services and we maintain the trust of our customers by developing and providing high-quality products and services in a fair, ethical and legal manner. We also expect our business partners (including suppliers and contractors) to adopt and uphold responsible and ethical business policies and practices in compliance with applicable laws, regulations, respect for human rights, responsible sourcing, environmental conservation and health and safety for mutual benefits.



Training session on policies

To strengthen the ethical environment and promote professional conduct within the Group, we have a Corporate Business Ethics and Code of Conduct Policy that is communicated to all employees. Besides providing detailed guidelines to ensure that employees' business conduct is consistent with ethical standards, the Policy requires all employees to declare any direct or indirect interest in, or relationship with other businesses and organisations where potential conflicts of interest may arise.

In line with our commitment towards effective prevention and detection of fraudulent activities and misconduct, the Group has adopted a Fraud Risk Management Policy which guides all employees on antifraud measures to mitigate the risks of frauds. This policy provides an avenue for employees to raise concerns while giving reassurance that they will be protected from reprisals or victimisation for whistle blowing in good faith. Training sessions on the Group's policies are conducted annually at the respective operating sites for all employees.

ENVIRONMENT

Fu Yu seeks to minimise the environmental impact of our business operations by using energy, water and others resources efficiently to reduce the effect of our operations on climate change and biodiversity. The Group complies with regulatory and environmental requirements and our operating sites are ISO 14001 certified.

We are committed to promoting energy efficiency of our operations. For example, we have replaced the LED lights with High-Intensity Discharge (HID) which are more durable and consume less energy. The Group's plant and machinery also undergo regular maintenance to improve productivity and prolong their useful life spans.

As part of our drive to reduce, reuse and recycle wastes, we have instituted a waste bin management programme where paper, food and electronic waste are sorted accordingly and collected for recycling. The proper management of waste, effective use of resources and carrying out of our day-to-day work in an environmentally

responsible manner have helped to improve our environmental performance and lower our operating cost.

The Group actively monitors the substances in the raw materials we procure and works closely with our vendors to replace any toxic substances with environmentally friendly substitutes. We also ensure that toxic waste is properly disposed through the engagement of approved toxic waste collection companies. In the unlikely event of a chemical spillage, our Chemical Spillage Control Team will be activated at the first instance to minimise the impact of such chemical pollution on the environment. We conduct yearly refresher training courses to ensure that our team is always ready to remedy any chemical spillage if the situation arises.



Training on chemical spillage control

SOCIETY

Fu Yu recognises that businesses can play an important role in providing support and assistance to the less fortunate in our community. Hence, the Group gives back to society through regular monetary contributions to various charitable organisations. Our employees play their part in contributing to the community by volunteering for charity activities such as the distribution of food and necessities to the needy households and blood donation campaigns.



Food distribution to needy households

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CORPORATE GOVERNANCE REPORT

INTRODUCTION

The Board of Directors (the “Board”) and Management of Fu Yu Corporation Limited (the “Company” or “Fu Yu”) recognise the importance of having in place a set of well-defined corporate governance processes to enhance corporate performance and accountability to its shareholders.

This report describes Fu Yu’s corporate governance policies and practices in reference to the Singapore Code of Corporate Governance 2012 (the “Code”) and any deviations from the Code are explained. This report also includes disclosure requirements under the Best Practices Guide in the Singapore Exchange Securities Trading Limited (“SGX-ST”) Listing Manual.

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 principal function of the Board is to protect and enhance long-term value and returns for its shareholders. Besides carrying out its statutory responsibilities, the Board’s roles are to:

1. oversee the management of the Group;
2. approve corporate and strategic direction and policies;
3. approve annual budgets, financial reporting, major funding and investment proposals;
4. monitor management performance;
5. ensure the Company’s compliance with prescribed legislations and regulations that are relevant to the business; and
6. assume responsibility for corporate governance.

All the Directors exercise due diligence, independent judgment and consider the interest of the Group at all times in making the decisions for the Group’s affairs.

The Board is supported by three (3) Board Committees to assist the Board in discharging its responsibilities and to enhance the Group’s corporate governance framework. The Board Committees include the Audit Committee (“AC”), Remuneration Committee (“RC”) and Nominating Committee (“NC”). Each Board Committee is chaired by a Non-Executive and Independent Director. Each Board Committee has its own defined terms of reference which sets out the respective Board Committee’s duties and responsibilities.

The Board meets regularly on a quarterly basis and ad-hoc Board meetings are convened when circumstances require. To facilitate Board’s decision-making process, the Company’s Constitution allows Directors to participate in Board meetings by means of telephone, electronic or other communication facilities that permit all persons participating in the meeting to communicate with one another simultaneously and instantaneously, and participation in such meeting shall constitute presence in person at such meeting. In between Board meetings, important matters concerning the Group are also put to the Board for its decision by way of Directors’ resolutions in writing for the Directors’ approval.

CORPORATE GOVERNANCE REPORT

Details of the Directors' attendance at Board and Committees meetings during the year under review are as follows:

| Name of Director | Board | | Audit Committee | | Remuneration Committee | | Nominating Committee | |
|------------------------|----------------------|--------------------------|----------------------|--------------------------|------------------------|--------------------------|----------------------|--------------------------|
| | No. of Meetings Held | No. of Meetings Attended | No. of Meetings Held | No. of Meetings Attended | No. of Meetings Held | No. of Meetings Attended | No. of Meetings Held | No. of Meetings Attended |
| Dr John Chen Seow Phun | 4 | 4 | 4 | 4 | 1 | 1 | 1 | 1 |
| Ching Heng Yang | 4 | 4 | 4* | 4* | – | – | – | – |
| Tam Wai | 4 | 4 | 4* | 4* | – | – | – | – |
| Ho Nee Kit | 4 | 4 | 4* | 4* | – | – | – | – |
| Hew Lien Lee | 4 | 4 | 4* | 4* | – | – | – | – |
| Tan Yew Beng | 4 | 4 | 4 | 4 | 1 | 1 | 1 | 1 |
| Foo Say Tun | 4 | 4 | 4 | 4 | 1 | 1 | 1 | 1 |

(*) By invitation.

The Company has established internal guidelines for matters and types of material transactions that require Board's approval. These include:

1. allotment and issue of new shares and additional listing application;
2. banking matters such as opening of bank accounts and acceptance of bank facilities;
3. material acquisition and disposal of subsidiaries and other assets;
4. announcements for public release, quarterly and full year results announcements;
5. any major agreements to be entered into whether in the ordinary or outside of ordinary business of the Group;
6. dividend recommendations and payments; and
7. appointments and resignations of Directors.

The Board recognises the importance of appropriate training for its Directors. Newly appointed Directors would be briefed by Management on the business operations of the Group and where necessary plant visits would be organised. First-time Directors are also provided training opportunities in areas such as accounting, legal and industry-specific knowledge as appropriate, as well as compliance, regulatory and corporate governance matters. New incoming Directors will receive a formal letter explaining their statutory duties and responsibilities as a director.

Routine updates on developments and changes in operating environment, including revisions to accounting standards, laws and regulations affecting the Company and/or the Group are regularly brought to the attention of the Board.

CORPORATE GOVERNANCE REPORT

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 comprises seven (7) Directors of whom four (4) are executive and three (3) are independent and non-executive. The independent and non-executive Directors make up at least one-third of the Board.

The Board considers an "Independent Director" as one who has no relationship with the Company, its related corporations, its 10% shareholders or its officers that could interfere, or be reasonably perceived to interfere, with the exercise of the Director's independent business judgement with a view to the best interests of the Company.

The independence of each Director is reviewed annually by the NC in accordance with the Code's definition of independence. Each Director is required to complete a 'Confirmation of Director's Independence' form to confirm his independence. The said form, which was drawn up based on the definitions and guidelines set forth in Guideline 2.3 in the Code, requires each Director to assess whether he considers himself independent despite not having any of the relationships identified in the Code.

In line with Guideline 2.4 of the Code, the independence of Dr John Chen Seow Phun, Mr Tan Yew Beng and Mr Foo Say Tun, who have served on the Board beyond nine (9) years from the dates of their first appointment, were subject to particularly rigorous review on their independence by members of the Board. The relevant factors that were taken into consideration in assessing the independence of Dr John Chen Seow Phun, Mr Tan Yew Beng and Mr Foo Say Tun are set out under Principle 4. The NC with the concurrence of the Board is satisfied that Dr John Chen Seow Phun, Mr Tan Yew Beng and Mr Foo Say Tun, having served on the Board for more than nine (9) years, continued to be considered independent. Dr John Chen Seow Phun, Mr Tan Yew Beng and Mr Foo Say Tun have abstained from the review pertaining to the review of their independence.

The Board has examined its size, taking into account the scope and nature of the operations of the Group, and is satisfied that the present size is appropriate in facilitating effective decision-making. Board members comprise of 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 of individuals dominates the Board's decision making.

Throughout the years, the Non-Executive and Independent Directors constructively challenge and assist to develop proposals on the Group's short-term and long-term strategies and review the performance of Management in meeting agreed goals and objectives and monitor the reporting of performance.

The Non-Executive and Independent Directors have met without the presence of the Executive Directors and Management at least once annually to facilitate a more effective check on Management.

CORPORATE GOVERNANCE REPORT

Principle 3: Chairman and 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 Board recognises the importance of the roles of Chairman and Chief Executive Officer ("CEO") to be held by separate persons.

Dr John Chen Seow Phun is the Non-Executive Chairman of the Company and Mr Hew Lien Lee is the CEO of the Company.

The Non-Executive Chairman schedules board meetings when necessary and set the board meeting agenda in consultation with the CEO and Chief Financial Officer ("CFO"). He ensures that the Board members are provided with complete, adequate and timely information. The Non-Executive Chairman also assists in ensuring compliance with the Group's guidelines on corporate governance.

Principle 4: Board Membership

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

The NC currently comprises Mr Foo Say Tun, Mr Tan Yew Beng and Dr John Chen Seow Phun. The NC is chaired by Mr Foo Say Tun who is not associated with any substantial shareholders of the Company.

The NC has written Terms of Reference that describe the operating procedures and responsibilities of its members. The duties of the NC are as follows:

1. reviews the structure, size and composition of the Board and makes recommendations to the Board with regards to any adjustments in the structure, size and composition of the Board that are deemed necessary;
2. reviews all nominations for the appointments and re-elections of Director for the purpose of proposing such nominations to the Board for approval;
3. conducts a review to determine the independence of each Director;
4. decides whether or not a Director is able to and has been adequately carrying out his duties as a Director of the Group, particularly when he has multiple board representations;
5. decides how the Board's performance may be evaluated and proposes objective performance criteria;
6. conducts a formal assessment of the effectiveness of the Board as a whole and the contribution by each Director to the effectiveness of the Board; and
7. recommends to the Board the maximum number of listed company representations which any Director may hold.

CORPORATE GOVERNANCE REPORT

In reviewing the independence of an Independent Director who has served on the Board for more than nine (9) years from the date of his first appointment, the Board has taken into consideration the following factors:

1. the Independent Director is able to act independently and provides overall guidance to the Management at all times;
2. the considerable amount of experience, required expertise in the relevant industry and wealth of knowledge that the Independent Director brings to the Company;
3. the qualification and expertise of the Independent Director to provide reasonable checks and balances for the Management to act as safeguard for the protection of the Company's assets and shareholders' interest;
4. the attendance and participation of the Independent Director in the proceedings and decision making process of the Board and Board Committees meetings; and
5. the Independent Director has provided adequate attention and sufficient time has been devoted to the proceedings and business of the Company.

In its annual review, the NC having considered the guidelines set out in the Code, has confirmed independence status of the Dr John Chen Seow Phun, Mr Tan Yew Beng and Mr Foo Say Tun. Despite some of the Directors having other board representations, the NC is satisfied that these Directors are able to devote sufficient time and attention to attend to the affairs of the Company and adequately carry out their duties as Directors of the Company.

Based on the current and past working experience with the Board members of the Company of whom some are sitting and have been sitting on multiple boards, the NC determines that the appropriate maximum number of the listed company board representations which an Executive Director may hold is three (3) and for Independent Non-Executive Director is nine (9). The NC will continue to assess whether these numbers need to be revised to ensure the Directors devote sufficient time and attention to the affairs of the Company.

In accordance with the Company's Constitution, one-third of the Directors are required to retire from office by rotation every year and each Director shall retire from office at least once every three (3) years. In addition, a Director appointed by the Board to fill a casual vacancy, or appointed as an additional Director, may only hold office until the next Annual General Meeting ("AGM"), at which time he will be eligible for re-election by shareholders. All Directors to be appointed or re-elected have to be assessed and recommended by the NC before submission to the Board for approval.

In recommending a candidate for appointment or re-appointment to the Board, the NC considers his contributions to the Board and his independence. The NC has recommended the re-election of Mr Ching Heng Yang, Mr Tan Yew Beng and Mr Foo Say Tun as Directors of the Company at the forthcoming AGM to be held on 28 April 2017. In making its recommendation, the NC evaluates such Directors' contribution and performance, such as their attendance at the meetings of the Board and Board Committees, where applicable, participation, candour and any special contribution. Save for Mr Ching Heng Yang who is also a substantial shareholder holding 11.81% of the Company's share capital, there are no relationships including immediate family relationships between these Directors submitted for re-election and the other Directors (except for Mr Ching Heng Yang, Mr Tam Wai and Mr Ho Nee Kit where they are concert parties), the Company or its 10% shareholders. The Board accepted the NC's recommendation and accordingly, the three (3) Directors will stand for re-election at the forthcoming AGM.

CORPORATE GOVERNANCE REPORT

The NC takes the lead in identifying, evaluating and selecting candidate for new directorship. In its search and selection process, the NC considers factors such as commitment and ability of prospective candidate to contribute to discussion, deliberations and activities of the Board and Board Committees. The NC conducts interviews with potential candidates and recommends short-listed candidates to the Board for consideration. There is no Alternate Director on the Board.

Each member of the NC is also required to abstain from voting on resolutions, making recommendations and/or participating in matters in which he or she is interested.

Please refer to the 'Board of Directors' section in the Annual Report for key information on the Directors.

Table for Appointment and Re-election

| Name of Directors | Date of first appointment | Date of last re-election | Nature of Appointment | Membership of Board Committee | Directorship/ Chairmanship both present and those held over the preceding three years in other listed company | Other Principal Commitments |
|------------------------|---------------------------|--------------------------|--|--|---|--|
| Dr John Chen Seow Phun | 27/11/2007 | 26/04/2016 | Non-executive Chairman, Independent Director | 1. Chairman of AC 2. Member of NC and RC. | Present: 1. Pavillon Holdings Ltd 2. OKP Holdings Limited 3. Hiap Seng Engineering Ltd 4. Hanwell Holdings Ltd 5. Matex International Limited 6. Tat Seng Packaging Group Ltd 7. HLH Group Limited Preceding three years:- NIL | Director in: 1. JCL Business Development Pte Ltd 2. SAC Capital Private Limited 3. National University Health System Pte Ltd 4. DataESP Pte Ltd 5. Pattern Discovery Technologies Pte Ltd 6. SAC Advisors Pte Ltd 7. JLM Foundation Ltd |
| Mr Ching Heng Yang | 10/12/1980 | 30/04/2015 | Vice Chairman, Executive Director | – | Present: 1. LCTH Corporation Berhad | – |
| Mr Tam Wai | 10/12/1980 | 26/04/2016 | Executive Director | – | Present: 1. LCTH Corporation Berhad | – |
| Mr Ho Nee Kit | 10/12/1980 | 26/04/2016 | Executive Director | – | Present: 1. LCTH Corporation Berhad | President in: 1. Singapore Loh Kang Ho Clan Association 2. Cha Yang Ho Clan Association Singapore 3. The Nanyang Khok Community Guild |

CORPORATE GOVERNANCE REPORT

| Name of Directors | Date of first appointment | Date of last re-election | Nature of Appointment | Membership of Board Committee | Directorship/ Chairmanship both present and those held over the preceding three years in other listed company | Other Principal Commitments |
|-------------------|---------------------------|--------------------------|------------------------------------|---|--|--|
| Mr Hew Lien Lee | 22/03/2007 | 30/04/2015 | CEO and Executive Director | – | Present: 1. LCTH Corporation Berhad | – |
| Mr Tan Yew Beng | 22/05/1995 | 30/04/2015 | Independent Non-Executive Director | 1. Chairman of RC 2. Member of AC and NC | – | Director in: 1. Accord Corporation Pte Ltd 2. Locker & Lock Pte Ltd 3. SA-Koyo Pte Ltd 4. Accord Corporation Sdn Bhd 5. Locker & Lock Sdn Bhd 6. Locker & Lock Placement Pte Ltd 7. Locker & Lock Placement Sdn Bhd |
| Mr Foo Say Tun | 27/11/2007 | 29/04/2014 | Independent Non-Executive Director | 1. Chairman of NC 2. Member of AC and RC | Present: 1. Qingmei Group Holdings Limited 2. Sino Techfibre Limited 3. Moneymax Financial Services Limited Preceding three years: 1. Jubilee Industries Holdings Limited | Director in: 1. Aquapro Solutions Pte Ltd 2. DynaGen Power Systems Pte Ltd 3. Ioni Water Pte Ltd |

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.

The NC has implemented a process to assess the performance and effectiveness of the Board as a whole and the contribution by the Chairman and each individual Director to the effectiveness of the Board. The evaluation is carried out on an annual basis without engagement of an external facilitator.

For assessing the effectiveness of the Board as a whole, each Director is required to complete a questionnaire which will be submitted to the NC. The NC reviews and assesses the Board's performance based on both quantitative and qualitative criteria. Such criteria include profitability and net assets per share and the achievement of strategic objectives. The completed assessment is compiled into a consolidated report on a no-name basis and reviewed by the NC. The NC also views that the Board's performance will be better reflected and evidenced through proper guidance to the Management, able leadership of the Board and the support that it lends to Management in steering the Group in the appropriate direction.

CORPORATE GOVERNANCE REPORT

For evaluating the performance of each Director, a peer and self-assessment of Directors is conducted annually in areas including Director's duties, knowledge of finance, business, industry and the Company, interaction with internal and external parties, attendance and participation at Board and Board Committees meetings, the time and effort dedicated to the Group's business and affairs including management's access to the Directors for guidance or exchange of views as and when necessary. The complied results of the assessment are reviewed by the NC. The performance of each individual Director is taken into account in their re-election.

The NC was of the view that the performance of the Board as a whole was satisfactory for the year under review.

Principle 6: Access to Information

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

Directors receive the agendas, complete and adequate meeting materials such as budgets, forecasts and monthly/quarterly internal financial statements, background or explanatory information in a timely manner in advance of Board and Board Committees meetings to facilitate the effective discharge of their duties. The annual budgets are submitted to the Board for review and approval and actual performance is compared against budgets periodically to monitor the Group's performance.

The Directors have separate and independent access to the Executive Directors, Management, company secretaries, internal and external auditors at all times, and vice versa. Directors are entitled to request for information from the Management and are provided with such additional information as needed to make informed decisions in a timely manner. The Board is informed of all material events and transactions as and when they occur.

The Company Secretary or its nominee attends to the corporate secretarial administration matters, attends all meetings of the Board and Board Committees and assists the Board in ensuring that the Board procedures are followed and that applicable rules and regulations are complied with.

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

The Board also has access to independent professional advice, where necessary, at the Company's expenses to enable them to discharge their duties. The CFO also assists the Board in obtaining such advice.

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.

The RC currently comprises Mr Tan Yew Beng, Dr John Chen Seow Phun and Mr Foo Say Tun who are Non-Executive Independent Directors. The RC is chaired by Mr Tan Yew Beng.

CORPORATE GOVERNANCE REPORT

The RC has written Terms of Reference that describe the responsibilities of its members. The primary functions of RC are as follows:

1. reviews and recommends a general framework of remuneration for the Board and key management personnel (CEO and other persons having authority and responsibility for planning, directing and controlling the activities of the Company and who are not also Directors and CEO of the Company);
2. reviews and recommends specific remuneration packages and terms of employment for each Executive Director and key management personnel;
3. recommends any long-term incentive schemes which are generally encouraged for Executive Directors and key management personnel;
4. ensures that a formal and transparent procedure is in place for fixing the remuneration packages of the Executive Directors as well as key management personnel of the Group;
5. reviews the Company's obligations arising in the event of termination of the Executive Directors and key management personnel's contracts of service.

The RC's recommendations are submitted for endorsement by the entire Board.

The RC has unrestricted access to expert advice within and/or outside of the Company, when required.

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.

In setting the remuneration package for the Executive Directors and key management personnel, the RC takes into consideration the pay and employment conditions within the industry and comparable companies, the individual performance and that of the Company and subsidiary companies. As part of its review, the RC ensures that the performance-related elements of remuneration would form a certain proportion of the total remuneration package of Executive Directors and key management personnel. The remuneration for the three (3) founding Executive Directors comprises a base fee, a base salary, an annual wage supplement (AWS) and a profit sharing bonus. The remuneration for the other Executive Director comprises a base fee, a base salary, allowances, annual and profit sharing bonuses. The remuneration for the key management personnel comprises a basic salary, allowances and variable components which are the annual bonus and profit sharing bonus based on the performance of the Company and subsidiary companies as well as individual contribution and performance which are assessed through performance appraisal that set out various assessment criteria such as level of achievement of targets and responsibilities, leadership ability, initiative, etc.

For the remuneration of the Non-Executive Directors, the RC has adopted a framework which consists of a base fee as well as fees for chairing Board Committees. The remuneration of Non-Executive and Independent Directors will be appropriate to the level of contribution, taking into consideration the effort and time spent and responsibilities, the prevailing market conditions and referencing Directors' fees against comparable benchmarks, such that Independent Directors are not over-compensated to the extent that their independence may be compromised.

CORPORATE GOVERNANCE REPORT

The RC's recommendations are submitted to the Board. No Director is involved in deciding his own remuneration, except in providing information and documents if required by the RC to assist in its deliberations. Directors' fees are recommended by the Board for approval at the Company's AGM.

All the four (4) Executive Directors have service contracts for a fixed period of one year which are subject to renewal annually. The RC had reviewed and recommended to the Board the renewal of the contracts of the four (4) Executive Directors for a further term of one year, from 1 January 2017 to 31 December 2017. The Board approved all the above renewals.

There are currently no contractual provisions to allow the Company to reclaim incentive component of remuneration from the Executive Directors and key management personnel in exceptional circumstances of misstatement of financial results, or of misconduct resulting in financial loss to the Company. However, the Company believes that it should be able to seek remedies against the Executive Directors and key management officers via other means if such exceptional circumstances occur.

There is currently no long-term incentive scheme for the Directors of the Group and there is currently no other unexpired share options.

Save for the contributions to defined contribution plans as disclosed in Note 29 of the Audited Financial Statements for FY2016, the Company does not provide any other termination, retirement and post-employment benefits to the Directors, the CEO and key management personnel.

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.

A breakdown showing the level and mix of remuneration paid to or accrued for each Director and key management personnel for the year under review is tabulated below:

| Name of Director | Fees % | Salary % | Bonus % | Allowances and Benefits % | Total % |
|---------------------------------|--------|----------|---------|---------------------------|---------|
| <u>Executive Directors</u> | | | | | |
| <u>S\$750,000 to S\$999,999</u> | | | | | |
| Ching Heng Yang | 3.5 | 71.1 | 23.2 | 2.2 | 100.0 |
| Tam Wai | 3.5 | 71.1 | 23.2 | 2.2 | 100.0 |
| Ho Nee Kit | 3.8 | 70.8 | 23.0 | 2.4 | 100.0 |
| <u>S\$500,000 to S\$749,999</u> | | | | | |
| Hew Lien Lee | 4.4 | 56.9 | 28.1 | 10.6 | 100.0 |
| <u>Non-Executive Directors</u> | | | | | |
| <u>Below S\$250,000</u> | | | | | |
| Dr John Chen Seow Phun | 100.0 | – | – | – | 100.0 |
| Tan Yew Beng | 100.0 | – | – | – | 100.0 |
| Foo Say Tun | 100.0 | – | – | – | 100.0 |

CORPORATE GOVERNANCE REPORT

The Company supports and is aware of the need for transparency. However, taking into consideration the competitive business environment in which it operates and the sensitivity and confidentiality nature of such disclosure, the Board is of the opinion that a full disclosure may have a negative impact on the Company. The aggregate remuneration paid or payable to the Company's Directors is S\$3,432,000 for FY2016.

| Name of Key Management Personnel | Salary % | Bonus % | Allowances and Benefits % | Total % |
|----------------------------------|-------------|------------|---------------------------------|------------|
| <u>Below S\$250,000</u> | | | | |
| Hee Siew Fong ¹ | 86.0 | 8.1 | 5.9 | 100.0 |
| Cheong Hock Yan ² | 78.5 | 6.6 | 14.9 | 100.0 |
| Tan Lay Kheng | 72.8 | 22.4 | 4.8 | 100.0 |
| Yeo See Joo ³ | 66.0 | 15.8 | 18.2 | 100.0 |
| Cheah Ngook Wah ⁴ | 59.5 | 32.3 | 8.2 | 100.0 |

Notes:

- Ms Hee Siew Fong joined as Chief Financial Officer with effect on 9 June 2016.
- Mr Cheong Hock Yan joined as Group Business Development Director with effect on 1 July 2016.
- Mr Yeo See Joo resigned as Group Business Development Director with effect on 30 June 2016.
- Ms Cheah Ngook Wah resigned as Senior Group Financial Controller with effect on 16 July 2016.

Based on the bands established above, the remuneration of each key management personnel who is not a Director or CEO is below S\$250,000. However, due to the competitive nature of the industry that the Group operates in, the Board believes it is unwise to disclose the breakdown of the remuneration of these key management personnel. The aggregate remuneration paid to the named key management personnel of the Company is S\$758,000 for FY2016.

None of the Directors and the key management personnel of the Company has received any termination, retirement and post-employment benefits for FY2016.

No employee of the Group was an immediate family member (as defined in the Listing Manual of SGX-ST) of a Director or CEO and whose remuneration exceeded S\$50,000 during the financial year ended 31 December 2016.

ACCOUNTABILITY AND AUDIT

Principle 10: Accountability

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

The Board is accountable to Shareholders while Management is accountable to the Board. To help continually ensure the accountability of Management to the Board, the Management provides all members of the Board with periodic updates that give a balanced summary of the Group's performance and financial position such as monthly financial statements and other management reports. Apart from the regular Board meetings, discussions are conducted via electronic means or ad hoc meetings, as and when required.

CORPORATE GOVERNANCE REPORT

The Board is mindful of its obligations to provide timely, reliable and fair disclosure of material information in compliance with the SGX-ST Listing Manual and present its financial results on a quarterly, half yearly and yearly basis via SGXNet to the public. In presenting the financial results, the Board has made every effort to provide a balanced and reader friendly assessment of the Group's performance and position. In line with the SGX-ST Listing Rules, the Board provides negative assurance statement in respect of the interim financial statements.

Disclosure to shareholders and investors is addressed in the section "Communication with Shareholders" below.

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.

The Management maintains a sound system of internal control to safeguard the shareholders' investment and the Company's assets. The adequacy of these controls and systems is subject to review by the AC.

The internal auditor conducts annual review of the effectiveness of the Group's key internal controls, including financial, operational and compliance controls. On a yearly basis, the internal auditor prepares an internal audit plan which is approved by the AC. The internal auditor updates the AC on the progress of the approved internal audit plan every quarterly. The Group's external auditor, KPMG LLP, contributes an independent perspective on certain aspects of the internal controls over financial reporting through its audit and report the findings to the AC.

Any material findings from both the internal and external auditors together with the improvement recommendations are reported to the AC and made known to the respective subsidiaries for corrective actions to be taken. The internal auditor will monitor if the required corrective measures are properly implemented by the Management.

The AC is assigned to oversee the risk management framework and policies of the Group. In year 2012, KPMG Services Pte Ltd was appointed to conduct a review to further enhance the Group's risk management framework over financial, operational and compliance risks. KPMG Services Pte Ltd had also been engaged to assist the Company in formulating and formalising its fraud risk management framework to further enhance its existing framework to prevent improprieties. The Management has continued to adopt the established risk management framework and reviewed its adequacy and effectiveness on an annual basis.

Based on the various management controls put in place and the reports and reviews done by the internal and external auditors, including the reviews by the Management, the non-existence of any critical internal control deficiencies, and assurance from the CEO and CFO that (a) the financial records have been properly maintained and the financial statements give true and fair view of the Company's operations and finances and (b) the Company's risk management and internal control systems are effective, 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 effective.

The Board notes, however, that the system of internal controls and risk management established provides reasonable but not absolute assurance against unforeseeable and foreseeable risk to the Company, as all internal control systems contain inherent limitations and no system of internal controls could provide absolute assurance against the occurrence of material errors, poor judgment in decision-making, human errors, losses, fraud or other irregularities.

CORPORATE GOVERNANCE REPORT

Principle 12: Audit Committee

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

The AC comprises Dr John Chen Seow Phun, Mr Tan Yew Beng and Mr Foo Say Tun, who are Independent Non-Executive Directors. The Chairman of the AC is Dr John Chen Seow Phun.

All AC members have relevant accounting and financial management experience.

The AC carries out its functions in accordance with the Companies Act and its written Terms of Reference. In performing those functions, the AC:

1. reviews the audit plans and the findings of the internal and external auditors of the Company and ensures the adequacy of the Company's system of internal controls and the co-operation given by the Company's Management to the external and internal auditors;
2. reviews the quarterly and annual financial statements and the auditors' report of the Company before their submission to the Board;
3. reviews with the Management on the adequacy and effectiveness of the Company's internal controls, including financial, operational, compliance and information technology;
4. reviews legal and regulatory matters that may have a material impact on the financial statements, related compliance policies and programmes and any reports received from regulators;
5. reviews arrangements by which employees of the Group may in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters and ensures that arrangements are in place for the independent investigation of such matters and for appropriate follow-up actions;
6. reviews the cost effectiveness, independence and objectivity of the external auditor;
7. reviews the nature and extent of non-audit services provided by the external auditor;
8. reviews the assistance given by the Company's officers to the internal and external auditors;
9. nominates the external auditor;
10. approves the hiring, removal, evaluation and compensation of the internal audit function, or the professional firm to which the internal audit function is outsourced; and
11. reviews interested person transactions and improper activities of the Company, if any.

In the financial year under review, all AC meetings were conducted without the presence of Executive Directors and Management unless invited by the AC to attend. For the year under review, the Executive Directors and Management were invited by the AC to attend the AC meetings. The Independent Directors have full autonomy in the conduct of all AC meetings.

CORPORATE GOVERNANCE REPORT

The AC has the power to conduct or authorise investigations into any matters within the AC's scope of responsibility. It has full access to, and co-operation of, Management and full discretion to invite any Director or members of Management to attend its meetings. The AC has been given reasonable resources for it to discharge its functions properly.

The AC meets with the internal and external auditors without the presence of the Company's Management at least once annually, which allows for a more open discussion on any issue of concern.

To keep abreast of the changes in accounting standards and issues which have a direct impact on the Group's business and financial statements, the AC is updated by the external auditor and company secretary of changes to accounting standards, the Listing Manual of the SGX-ST and other regulations when they attend the AC meetings.

The Company has in place a whistle-blowing framework where employees of the Group have access to the AC Chairman to raise concerns about improprieties. Details of this policy have been disseminated and contact details of the AC Chairman are made available to all employees of the Group. AC will carry out independent investigations on the complaints received and will report the outcome to the Board for appropriate actions to be taken.

The Company's external auditor, KPMG LLP, as part of the annual statutory audit, carries out test of operating effectiveness over certain internal controls relating to financial reporting process based on the scope of audit as laid out in its audit plan. Internal control weaknesses noted during the audit, and auditor's recommendations to address such non-compliance and weaknesses, if any, are discussed with Management and reported to the AC.

The AC has undertaken a review of the scope of audit and non-audit services provided by the external auditor and the objectivity of the external auditor on an annual basis, and is satisfied that all non-audit services provided by the external auditor would not, in the AC's opinion, affect the independence of the external auditor. KPMG LLP has also provided a confirmation of their independence to the AC. Accordingly, the AC is satisfied that Rule 712 of the SGX-ST Listing Manual is complied with and has recommended to the Board, the nomination of the external auditor, KPMG LLP, for re-appointment at the forthcoming AGM.

The audit fees paid/payable to the KPMG LLP, overseas affiliates of KPMG LLP and other auditors for FY2016 amounted to S\$148,000, S\$158,000 and S\$103,000 respectively. There is no non-audit fee paid to KPMG LLP during the year. Non-audit fees paid to other auditors amounted to S\$22,000 in FY2016.

Other member firms of KPMG International are auditors of significant foreign-incorporated subsidiaries for consolidation purposes except for LCTH Corporation Berhad and its subsidiaries, which are audited by Ernst & Young, Malaysia. The Board and AC are satisfied that the appointment would not compromise the standard and effectiveness of the audit of the Group and LCTH Corporation Berhad is also listed on the Main Board of Bursa Malaysia Securities Berhad. The Company confirms that it is in compliance with Rule 715 of the SGX Listing Manual.

Please refer to the 'Board of Directors' section in the Annual Report for the qualifications of the AC members.

CORPORATE GOVERNANCE REPORT

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 Company sets up its internal audit department since January 2009 after outsourcing the full spectrum of internal audit work for three (3) years. During the year under review and since year 2011, the Company outsourced part of its internal audit function to a professional firm, Nexia TS Risk Advisory Pte Ltd, to further strengthen and enhance the internal audit function of the Group. The internal auditor reports directly to the AC and reports administratively to the CEO.

The AC reviews and approves the yearly internal audit plan before the commencement of an internal audit. The outsourced firm and in-house internal audit department carry out the internal audit of all the subsidiaries in China and Singapore. The objective of internal audit review is to assist Management in evaluating and testing the effectiveness of internal audit controls that are in place. The internal audit review is conducted with a view to identify control gaps in the current business processes, that operations are conducted within the policies and procedures laid down and identify areas for improvements, where controls can be strengthened. Internal audit reports are prepared to update the AC on the progress of all audits carried out, the recommendations accepted by Management, and to track the status of outstanding matters and remedial actions taken to date.

The AC, on an annual basis, will address the adequacy and the effectiveness of the internal audit function by examining the internal auditor's scope of work and its independence, as well as the internal auditor's reports.

SHAREHOLDER RIGHTS AND RESPONSIBILITIES

Principle 14: Shareholders 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.

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 engages in regular, effective and fair communication with shareholders through announcements released to SGX via SGXNET. Such announcements include the quarterly, half yearly and full year results, material transactions and other developments relating to the Group which require disclosure under the corporate disclosure policy of SGX. The Company also maintains a website at www.fuyucorp.com where the public can access both business and financial information of the Group.

CORPORATE GOVERNANCE REPORT

The CEO oversees and leads the Company's Investor Relations ("IR") activities. He is supported by the CFO and external IR consultants engaged by the Company to reinforce its communications and interactions with shareholders and investors. The IR contact information (email address and telephone number) is provided in the annual reports, announcements and website. Shareholders and investors can send their enquiries to the Company's IR consultants who can be reached by email or telephone.

To better understand the views of shareholders and investors, the Company holds regular briefings for the investment community in conjunction with the release of the Group's financial results to discuss the Group's performance and developments, and promote better appreciation of the Group's business. The Company also participates in investor roadshows organised by third-parties such as stockbroking companies, from time to time.

Two (2) interim dividends have been declared and paid during the year. The Company has proposed a final dividend of 1.0 cent per ordinary share for FY2016 subject to the shareholders' approval in the forthcoming AGM.

The Company has decided on a dividend policy of declaring and proposing at least 50% of its profit after income tax attributable to the owners of the Company as dividends, unless:

- (i) any reinvestment of the profit for capital expenditure, expansion or diversification purposes is more than 50% of the profit; or
- (ii) there is insufficient profit at the Company level; or
- (iii) there is insufficient funds at the Company level to pay for the dividends,

under which conditions, any proposed dividends will be decided by the Board taking into account the above conditions.

Shareholders are informed of general meetings through notices published in the newspapers and annual reports or circulars sent to them.

The Company encourages shareholders' participation at general meetings, and welcomes shareholders to give their constructive views on various matters concerning the Group. When opportunities arise, the Directors will solicit and try to understand the views of shareholders before and/or after general meetings of the Company.

Each item of special business included in the notice of the meeting is accompanied by an explanation for the proposed resolution. Separate resolutions are proposed for substantially separate issues at the meeting. The Chairmen of the AC, NC and RC are available at the meeting to answer those questions relating to the work of these committees. The external auditor is also present to address shareholders' queries about the conduct of audit and the preparation and content of the auditors' report.

The Company will prepare the detailed AGM minutes, which include comments and the questions received from shareholders, if any. The Company will be pleased to make these minutes available to shareholders upon their request.

The Company commenced the voting of all its resolutions by poll at the Extraordinary General Meeting ("EGM") held on 16 October 2014 and has since conducted the voting of all its resolutions by poll in all its subsequent AGMs and EGMs. The Company will make an announcement of the detailed results showing the number of votes cast for and against each resolution and the respective percentages. Electronic polling may be considered in the near future.

CORPORATE GOVERNANCE REPORT

The Company's Constitution allow a shareholder to appoint one (1) or two (2) proxies to attend and vote at general meetings in his/her stead. Nonetheless, under the revised Companies Act, a relevant intermediary may appoint more than two (2) proxies, but each proxy must be appointed to exercise the rights attached to a different share or shares held by him/her (which number and class of shares shall be specified).

The Company will review its Constitution from time to time and make such amendments to the Constitution to be in line with the applicable requirements or rules and regulations governing the continuing listing obligation in the Listing Manual of SGX-ST.

DEALINGS IN SECURITIES

The Company has complied with Rule 1207(19) of the SGX-ST Listing Manual in relation to the best practices on dealings in the securities:

- (a) the Company had devised and adopted its own internal compliance code to provide guidance to its officers with regards to dealings by the Company and its officers in its securities;
- (b) officers of the Company did not deal in the Company's securities on short-term considerations; and
- (c) the Company and its officers did not deal in the Company's shares (i) during the periods 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 statements, ending on the date of the announcement of the relevant results, and (ii) if they are in possession of unpublished price-sensitive information of the Group.

In addition, the Company issues quarterly reminders to its Directors, officers and employees on such restrictions in dealings in listed securities of the Group.

INTERESTED PERSON TRANSACTIONS

The SGX-ST requires listed company to comply with Chapter 9 of the Listing Manual of SGX-ST on interested person transactions. The Company monitors all its interested person transactions closely and all interested person transactions, if any, are subject to review by the AC.

There were no interested person transactions for the year ended 31 December 2016.

MATERIAL CONTRACTS

There were no material contracts entered into by the Company and/or its subsidiaries with the Directors or CEO or controlling shareholders of the Company which were still subsisting at the end of the financial year under review, or if not subsisting, entered into since the end of the previous financial year.

RISK MANAGEMENT REPORT

The Board of Directors (the “Board”) and Management of Fu Yu Corporation Limited (the “Company” or “Fu Yu”) recognise the importance of an integrated enterprise-wide perspective of risk management practices. In Fu Yu, the Audit Committee (“AC”) was delegated the role of assisting the Board in its risk management function.

KPMG Services Pte Ltd was appointed in the year 2012 to conduct a review to further enhance the Group’s risk management framework with regards to its financial, operational and compliance risks. The Management has continued to adopt the established risk management framework in its ongoing consolidated risk management review.

RISK MANAGEMENT PROCESS

The AC with the assistance of management, internal and external auditors, reviews and reports to the Board at least annually on the adequacy and effectiveness of the Group’s internal controls, including financial, operational, compliance and information technology controls, established by the Management. In addition, the Board with the assistance of the AC reviews and oversees the design, implementation and monitoring of the risk management and internal control systems.

To facilitate the reporting and monitoring of risk, the AC has endorsed the use of a dashboard risk assessment template, a common platform which enables operating divisions within the Group to report risk and risk status in a consistent and cohesive manner. The AC shall then be provided relevant reports disclosing the risk status of the Group.

The dashboard risk assessment template captures risks and the gross risk ratings based on likelihood of occurrence and magnitude of impact parameters, mitigating measures and/or internal controls with the resulting residual risk ratings, as well as the risk owners and their assessment of the mitigating measures. These dashboard risk assessment templates are then consolidated and reviewed at the senior management level before they are escalated to the AC for review.

KEY RISKS IDENTIFIED BY THE MANAGEMENT

ECONOMIC RISK

The global and regional economic uncertainties, rising trend in trade protectionism, coupled with increases in commodity prices and employment wages, have resulted in a more challenging operating environment.

Through ongoing expansion and diversification of its customer base, Management aims to minimise the impact of economic downturns and the concentration of the Group’s business on any particular geographical region. The Group also invests continuously in automation to reduce reliance on labour.

COMPETITION RISK

New market entrants, growth of existing players and price competition are constant threats faced by the Group.

With close to 40 years of operating history, Fu Yu has established a reputation as a quality preferred supplier. The Group also offers one-stop solution to its customers from design, tooling, moulding, manufacturing, secondary processes to sub-assembly. This has shortened time-to-market and improved cost efficiency for customers. Furthermore, the Group has a network of strategically-located operating sites in Asia.

RISK MANAGEMENT REPORT

PORTFOLIO RISK

The Group is recognised for its capability in printing and imaging products. While it maintains keen interest in this segment, it is also part of the Group's strategic intent to minimise revenue concentration and diversify its revenue base by targeting sectors with greater stability and longer product life cycles.

Leveraging on its technology capabilities and competencies, the Group has increased its footprint in consumer, medical and automotive segments, thereby reducing the revenue concentration in printing and imaging segment from more than 50% in FY2011 to 41% in FY2016.

The Management continues its effort to balance the portfolio with higher profit margin products and broaden revenue sources as well as positions the Group in market segments with higher growth potential – 3D printing, security-related, medical and green products. By keeping abreast of customers' developments and market trends, the Group continues to expand its business with existing customers, and penetrate new customer accounts/product segments.

CUSTOMERS' CREDIT RISK

Fu Yu offers unsecured credit terms to its customers during the ordinary course of business. There are uncertainties over the timeliness of customers' payments and their ability to pay. Long outstanding debts will affect the Group's cash flow while a material increase in bad and doubtful debts will adversely affect its financial performance.

The Group has a credit management policy to manage the exposure from the approval of credit terms and limits to the ongoing reviews of all outstanding receivables. Furthermore, the majority of the Group's customers are multinational companies with good credit standings.

FINANCIAL RISK – FLUCTUATIONS IN FOREIGN CURRENCY EXCHANGE RATES

The Group has key business operations in Singapore, Malaysia and China with Singapore Dollars (SGD) as its reporting currency. The Group is exposed to foreign currency exchange rate fluctuations on its revenue, purchases and cash and cash equivalents that are denominated in currencies other than the respective functional currencies of the Group entities. The currency that poses this risk is primarily the US Dollar (USD) as it constitutes a significant portion of the trade transactions in the Group.

The foreign currency exchange rate risk is partially managed through a natural hedge between the revenue and the purchases in the same currency, the USD. The remaining unhedged portion is usually surplus funds which will be converted to the required currencies when the need arises. The Group keeps close watch on the USD exchange rate movements and actively reviews its cash flow forecast and requirement.

FINANCIAL RISK – LIQUIDITY AND CASH FLOW

Insufficient liquidity and cash flow is detrimental to a company as the inability to meet short term financial demands will affect the business as a going concern.

The Group manages its working capital through preparation of cash flow forecast, assessment of customers' creditworthiness, prompt follow ups on overdue and slow paying customers, reviews of inventory holding, cordial relationships with suppliers, as well as obtaining short term credit facilities from the banks. A certain level of cash and cash equivalent deemed adequate by Management is maintained to finance the Group's operations and to mitigate the effects of fluctuations in cash flows.

RISK MANAGEMENT REPORT

INFRASTRUCTURE RISK

Infrastructure risk refers to the political stability and the level of infrastructural support (for example, reliable supply of utility, transportation network, etc.) at the various sites the Group operates.

The Management continuously monitors the political situations in Singapore, Malaysia and China where it has manufacturing plants. Before setting up any new plant, the Group will perform thorough due diligence on the local conditions of the prospective site.

A consistent supply of high quality power is crucial for our machine operations. The Group has established business continuity plans to handle unwarranted situations like power outage. Through strong relationships with both the power suppliers and customers, important information obtained from the power suppliers is shared with the customers and the Group works closely together with customers on the next available course of actions as well as provides updates regularly.

INVESTMENT RISK

To compete with its peers in the industry, the Group must equip itself with the relevant skills, technologies, machinery and equipment. Having inappropriate assets will not only lead to excess capacity, but also impairment of investment or fixed assets.

The Group has established a Capital Expenditure (“CAPEX”) policy whereby revenue and cash flow forecasts are prepared and reviewed prior to CAPEX commitment. Management also invests in more versatile machinery which can be deployed to other locations when necessary. In addition, there is continuous efforts within the Group to maximise the utilisation of fixed assets rendered redundant from other projects/plants, if any.

MANUFACTURING DOWNTIME RISK

Manufacturing downtimes can occur in the unlikely events of a fire, workers on strikes, machinery breakdowns, etc., resulting in production and delivery delays as well as reputational damages to the Group.

Other than adequate fire insurance coverage on the Group’s assets, preventive measures are also implemented to mitigate the risk. The Fire Prevention procedures have been established to prevent fire occurrence. Coupled with proper working instructions for hot works and regular fire drills to train employees for emergency situations, the Group aims to minimise any fire hazards and the impact on business operations.

The Group has also maintained a good tripartite relationship with the unions and workers.

To mitigate the risks of machine breakdowns, all operating sites have their respective in-house maintenance teams to perform scheduled maintenance works and ad-hoc repairs. Monthly, quarterly and annual maintenance programs are in place to keep the machinery at optimal level of performance.

RISK MANAGEMENT REPORT

ENVIRONMENTAL, COMPLIANCE AND REGULATORY RISK

The Group operates in three countries across eight locations with different legislations and regulations in the aspects of permits and licences, health and safety, waste disposal and treatment, to name a few. Violations of rules may result in penalties and fines as well as manufacturing downtimes.

The respective management team monitors its local legislative and regulatory requirements closely on an ongoing basis. Potential changes with moderate to high impact on the business are brought to the attention of the senior management at the Group's headquarters in Singapore. Necessary certifications and licenses are obtained and renewed on a timely basis to ensure compliance.

With the increased awareness of how business activities impact on the environment, the Group not only has to comply to regulatory requirements, but also the stringent requests imposed by its customers' sustainability policy. The Group's operating sites are ISO14000:2004 certified.

LEASEHOLD AND INVESTMENT PROPERTIES

| No | Company Name | Location of the properties | Existing Use | Year of acquisition | Land Area/ Built-up Area | Percentage interest in property | Tenure |
|----|--|--|-------------------------------|---------------------|---|---------------------------------|--|
| 1 | Fu Yu Corporation Limited | 5 Tuas Drive 1 Singapore 638672 | Warehouse, factory and office | 1981 | Land: 4,756 sq m Building: 5,179 sq m | 100% | Leasehold for 60 years expiring on 15 Nov 2041 |
| | | 7 Tuas Drive 1 Singapore 638674 | Warehouse, factory and office | 1981 | Land: 4,756 sq m Building: 2,646 sq m | 100% | Leasehold for 40 years expiring on 15 Nov 2021 |
| | | 8 Tuas Drive 1 Singapore 638675 | Warehouse, factory and office | 1988 | Land: 5,000 sq m Building: 3,606 sq m | 100% | Leasehold for 56 years expiring on 31 Oct 2044 |
| | | 9 Tuas Drive 1 Singapore 638676 | Warehouse, factory and office | 1981 | Land: 4,755 sq m Building: 2,572 sq m | 100% | Leasehold for 40 years expiring on 15 Nov 2021 |
| | | 10 Tuas Drive 1 Singapore 638677 | Warehouse, factory and office | 1988 | Land: 3,366 sq m Building: 3,334 sq m | 100% | Leasehold for 56 years expiring on 31 Oct 2044 |
| | | 43 Senoko Drive Singapore 758227 | Warehouse, factory and office | 1982 | Land: 6,445 sq m Building: 6,961 sq m | 100% | Leasehold for 38 years expiring on 15 Sep 2020 |
| 2 | Classic Advantage Sdn Bhd | 21, Jalan Tecknologi 4 Taman Teknologi Johor 81400 Senai Johor Darul Ta'zim Malaysia | Warehouse, factory and office | 2004 | Land: 54,054 sq m Building: 12,728 sq m Investment properties: 15,700 sq m | 100% | Leasehold for 60 years expiring on 31 Mar 2066 |
| 3 | Fu Hao Manufacturing (M) Sdn Bhd | Plot 562 Mukim 1 Jalan Perusahaan Baru 1, Perai III Perai Industrial Estate 13600 Perai, Penang Malaysia | Warehouse, factory and office | 1995 | Land: 5,807 sq m Building: 4,865 sq m | 100% | Leasehold for 60 years expiring on 11 Dec 2050 |
| 4 | Fu Yu Moulding & Tooling (Suzhou) Co., Ltd | 89 Xing Nan Road Wuzhong Economic Skill Development Zone Suzhou, China 215128 | Warehouse, factory and office | 2006 | Land: 58,847 sq m Building: 47,800 sq m | 100% | Leasehold for 50 years expiring on 18 Mar 2054 |
| 5 | Fu Yu Moulding & Tooling (Dongguan) Co., Ltd | Jing Fu Road, Xin Cheng Industry Area Heng Li Town, Dongguan, Guangdong China 523477 | Warehouse, factory and office | 1997 | Land: 15,000 sq m Building: 21,110 sq m | 100% | Leasehold for 50 years expiring on 14 Dec 2047 |
| | | | | 2001 | Land: 10,000 sq m Building: 18,890 sq m | 100% | Leasehold for 50 years expiring on 17 May 2051 |

DIRECTORS' STATEMENT

We are pleased to submit this annual statement to the members together with the audited financial statements of Fu Yu Corporation Limited (the Company) and its subsidiaries (collectively, the Group) for the financial year ended 31 December 2016.

In our opinion:

- (a) the financial statements set out on pages 49 to 102 are drawn up so as to give a true and fair view of the financial position of the Group and of the Company as at 31 December 2016 and the financial performance, changes in equity and cash flows of the Group for the year ended on that date in accordance with the provisions of the Singapore Companies Act, Chapter 50 and Singapore Financial Reporting Standards; and
- (b) at the date of this statement, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

The Board of Directors has, on the date of this statement, authorised these financial statements for issue.

DIRECTORS

The directors in office at the date of this statement are as follows:

Ching Heng Yang
 Tam Wai
 Ho Nee Kit
 Hew Lien Lee
 John Chen Seow Phun
 Tan Yew Beng
 Foo Say Tun

DIRECTORS' INTERESTS

According to the register kept by the Company for the purposes of Section 164 of the Companies Act, Chapter 50 (the Act), particulars of interests of directors who held office at the end of the financial year (including those held by their spouses and infant children) in shares, debentures, warrants and share options in the Company and in related corporations (other than wholly-owned subsidiaries) are as follows:

| Name of director and corporation in which interests are held | Holdings at beginning of the year | Holdings at end of the year |
|---|--|--|
| Ching Heng Yang | | |
| Fu Yu Corporation Limited | | |
| – ordinary shares | | |
| – interest held | 88,965,475 | 88,965,475 |
| LCTH Corporation Berhad | | |
| – ordinary shares of RM0.20 each | | |
| – interest held | 300,000 | 300,000 |
| – deemed interests | 254,295,643 | 254,295,643 |
| NanoTechnology Manufacturing Pte Ltd | | |
| – ordinary shares | | |
| – deemed interests | 14,400,000 | 18,000,000 |

DIRECTORS' STATEMENT

| Name of director and corporation in which interests are held | Holdings at beginning of the year | Holdings at end of the year |
|---|---|-----------------------------------|
| Tam Wai | | |
| Fu Yu Corporation Limited | | |
| – ordinary shares | | |
| – interest held | 96,715,475 | 96,715,475 |
| – deemed interests | 300,000 | 300,000 |
| LCTH Corporation Berhad | | |
| – ordinary shares of RM0.20 each | | |
| – interest held | 366,000 | 366,000 |
| – deemed interests | 254,295,643 | 254,295,643 |
| NanoTechnology Manufacturing Pte Ltd | | |
| – ordinary shares | | |
| – deemed interests | 14,400,000 | 18,000,000 |
| Ho Nee Kit | | |
| Fu Yu Corporation Limited | | |
| – ordinary shares | | |
| – interest held | 96,999,225 | 96,999,225 |
| LCTH Corporation Berhad | | |
| – ordinary shares of RM0.20 each | | |
| – interest held | 369,120 | 369,120 |
| – deemed interests | 254,295,643 | 254,295,643 |
| NanoTechnology Manufacturing Pte Ltd | | |
| – ordinary shares | | |
| – deemed interests | 14,400,000 | 18,000,000 |
| Tan Yew Beng | | |
| Fu Yu Corporation Limited | | |
| – ordinary shares | | |
| – interest held | 2,562,500 | 2,562,500 |
| LCTH Corporation Berhad | | |
| – ordinary shares of RM0.20 each | | |
| – interest held | 300,000 | 300,000 |

DIRECTORS' STATEMENT

| Name of director and corporation in which interests are held | Holdings at beginning of the year | Holdings at end of the year |
|---|--|--|
| Hew Lien Lee | | |
| Fu Yu Corporation Limited | | |
| – ordinary shares | | |
| – interest held | 8,100,000 | 8,100,000 |
| LCTH Corporation Berhad | | |
| – ordinary shares of RM0.20 each | | |
| – interest held | 3,031,524 | 3,031,524 |
| John Chen Seow Phun | | |
| Fu Yu Corporation Limited | | |
| – ordinary shares | | |
| – interest held | 1,000,000 | 1,000,000 |

By virtue of Section 7 of the Act, Ching Heng Yang, Tam Wai and Ho Nee Kit are deemed to have interests in shares of the subsidiaries of the Company, at the beginning and at the end of the financial year.

Except as disclosed in this statement, no director who held office at the end of the financial year had interests in shares, debentures, warrants or share options of the Company, or of related corporations, either at the beginning or at the end of the financial year.

There were no changes in any of the above-mentioned interests in the Company between the end of the financial year and 21 January 2017.

Neither at the end of, nor at any time during the financial year, was the Company a party to any arrangement whose objects are, or one of whose objects is, to enable the directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

SHARE OPTIONS

During the financial year, there were:

- (i) no options granted by the Company to any person to take up unissued shares in the Company; and
- (ii) no shares issued by virtue of any exercise of option to take up unissued shares of the Company.

As at the end of the financial year, there were no unissued shares of the Company under option.

DIRECTORS' STATEMENT

AUDIT COMMITTEE

The members of the Audit Committee during the year and at the date of this statement are:

John Chen Seow Phun (Chairman), Independent Non-Executive Director
Tan Yew Beng, Independent Non-Executive Director
Foo Say Tun, Independent Non-Executive Director

The Audit Committee performs the functions specified in Section 201B(5) of the Act, the SGX Listing Manual and the Code of Corporate Governance.

The Audit Committee has held four (4) meetings during the financial year. In performing its functions, the Audit Committee met with the Company's external and internal auditors to discuss the scope of their work, the results of their examination and evaluation of the Company's internal accounting control system.

The Audit Committee also reviewed the following:

- assistance provided by the Company's officers to the external and internal auditors;
- quarterly financial information and annual financial statements of the Group and the Company prior to their submission to the directors of the Company for adoption;
- interested person transactions (as defined in Chapter 9 of the SGX Listing Manual); and
- the audit plan of the Group's external auditor and its findings arising from the statutory audit.

The Audit Committee has full access to management and is given the resources required for it to discharge its functions. It has full authority and the discretion to invite any director or executive officer to attend its meetings. The Audit Committee also recommends the appointment of the external auditors and reviews the level of audit and non-audit fees.

The Audit Committee is satisfied with the independence and objectivity of the external auditors and has recommended to the Board of Directors that the auditors, KPMG LLP, be nominated for re-appointment as auditors at the forthcoming Annual General Meeting of the Company.

In appointing our auditors for the Company, subsidiaries and a joint venture, we have complied with Rules 712 and 715 of the SGX Listing Manual.

DIRECTORS' STATEMENT

AUDITORS

The auditors, KPMG LLP, have indicated their willingness to accept re-appointment.

On behalf of the Board of Directors

Tam Wai

Director

Ho Nee Kit

Director

31 March 2017

INDEPENDENT AUDITORS' REPORT

Members of the Company Fu Yu Corporation Limited

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of Fu Yu Corporation Limited (the Company) and its subsidiaries (the Group), which comprise the consolidated statement of financial position of the Group and the statement of financial position of the Company as at 31 December 2016, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 49 to 102.

In our opinion, the accompanying consolidated financial statements of the Group and the statement of financial position of the Company are properly drawn up in accordance with the provisions of the Companies Act, Chapter 50 (the Act) and Financial Reporting Standards in Singapore (FRSs) so as to give a true and fair view of the consolidated financial position of the Group and the financial position of the Company as at 31 December 2016 and of the consolidated financial performance, consolidated changes in equity and consolidated cash flows of the Group for the year ended on that date.

Basis for opinion

We conducted our audit in accordance with Singapore Standards on Auditing (SSAs). Our responsibilities under those standards are further described in the '*Auditors' responsibilities for the audit of the financial statements*' section of our report. We are independent of the Group in accordance with the Accounting and Corporate Regulatory Authority *Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities* (ACRA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Singapore, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the ACRA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

INDEPENDENT AUDITORS' REPORT

Valuation of investment in subsidiaries, receivables from subsidiaries and property, plant and equipment

- **Property, plant and equipment (refer to Note 4 to the financial statements)**
- **Investment in and receivables from subsidiaries (refer to Note 6 to the financial statements)**

The key audit matter

During the financial year, certain operations of the Group in China and Singapore continued to incur operating losses whereas some other parts of the Group's business saw improvement in financial performance. Accordingly, there is a need for the Group to reassess whether there are impairment indicators and where applicable, to assess the recoverable amount of the non-financial assets (including property, plant and equipment, investment in subsidiaries and receivables from subsidiaries) and determine if any impairment loss should be recognised or reversed.

The impairment assessment exercise and the estimation of the recoverable amount is highly subjective and involves significant management's judgment.

Management has estimated the recoverable amount of each cash generating unit (CGU) based on the higher of (i) value in use (VIU) considering appropriate revenue growth rate, gross profit margin, terminal value (for investment in subsidiaries and receivables from subsidiaries) and discount rate or (ii) fair value less cost to sell, determined by independent external valuers.

How the matter was addressed in our audit

We reviewed management's assessment of impairment indicators and the appropriateness of management's determination of CGU.

For recoverable amounts measured based on VIU, our audit procedures included obtaining an understanding of the Group's budgeting process upon which the forecasts are based, and assessment of management's key assumptions used, including the projected revenue growth rate, projected gross profit margin, terminal value and discount rates. We compared the key assumptions used to external market data, where available, and historical performance achieved by the CGUs. We also performed stress testing on key assumptions to evaluate the sensitivity of the outcomes, taking into account the downside scenarios against reasonably plausible changes to the key assumptions.

For recoverable amounts measured based on fair value less cost to sell, we evaluated the appropriateness of the valuation methods used by comparing to general market practices. We also assessed the valuers' estimate of fair value less cost to sell by independently corroborating to externally derived data of recent transacted asset sales.

Findings

The estimates used by management to determine recoverable amounts measured based on VIU were balanced.

The valuation methodologies used by independent external valuers were in line with generally accepted market practices and the key assumptions used were within the range of market data.

INDEPENDENT AUDITORS' REPORT

| Valuation of deferred tax assets (Refer to Note 8 to the financial statements) | |
|--|---|
| <i>The key audit matter</i> | <i>How the matter was addressed in our audit</i> |
| <p>The Group recorded deferred tax assets of \$2.1 million as at 31 December 2016. There were also significant unrecognised deferred tax assets in respect of unutilised tax losses which were not recognised due to the level of uncertainty over the availability of future taxable profits against which these tax losses would be utilised.</p> <p>The estimation of future taxable profits is highly judgemental.</p> | <p>Our audit procedures on management's assessment of future taxable profits included obtaining an understanding of the Group's budgeting process upon which the forecasts are based and challenging management key assumptions used in the forecast, including the projected revenue growth rate, projected gross profit margin and discount rates, against the Group's historical performance achieved.</p> <p>We also considered the Group's tax position, and applied our knowledge and experience of the relevant tax legislation.</p> |
| <i>Findings</i> | |
| <p>We found that cautious assumptions and estimates were used by the Group to determine future taxable profits for which tax losses would be utilised.</p> | |

Other Information

Management is responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements and our auditors' report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and directors for the financial statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the Act and FRSs, and for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair financial statements and to maintain accountability of assets.

In preparing the financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The directors' responsibilities include overseeing the Group's financial reporting process.

INDEPENDENT AUDITORS' REPORT

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with SSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
- Obtain an understanding of internal controls relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal controls.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal controls that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

INDEPENDENT AUDITORS' REPORT

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless the law or regulations preclude public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In our opinion, the accounting and other records required by the Act to be kept by the Company and by those subsidiary corporations incorporated in Singapore of which we are the auditors have been properly kept in accordance with the provisions of the Act.

The engagement partner on the audit resulting in this independent auditors' report is Kum Chew Foong.

KPMG LLP

*Public Accountants and
Chartered Accountants*

Singapore

31 March 2017

STATEMENTS OF FINANCIAL POSITION

As at 31 December 2016

| | Note | Group | | Company | |
|---|------|----------------|----------------|----------------|----------------|
| | | 2016 \$'000 | 2015 \$'000 | 2016 \$'000 | 2015 \$'000 |
| Non-current assets | | | | | |
| Property, plant and equipment | 4 | 47,703 | 52,399 | 12,175 | 12,069 |
| Investment property | 5 | 8,215 | 8,585 | – | – |
| Subsidiaries | 6 | – | – | 61,166 | 65,593 |
| Joint venture | 7 | 2,162 | 2,484 | – | – |
| Deferred tax assets | 8 | 2,100 | 2,464 | – | – |
| | | 60,180 | 65,932 | 73,341 | 77,662 |
| Current assets | | | | | |
| Inventories | 9 | 15,968 | 15,017 | 1,958 | 2,517 |
| Trade and other receivables | 10 | 57,008 | 61,291 | 13,590 | 14,011 |
| Tax recoverable | | 82 | 70 | – | – |
| Short term investments | 14 | 2,678 | 3,637 | – | – |
| Cash and cash equivalents | 13 | 105,632 | 102,940 | 36,002 | 29,962 |
| | | 181,368 | 182,955 | 51,550 | 46,490 |
| Total assets | | 241,548 | 248,887 | 124,891 | 124,152 |
| Equity attributable to equity holders of the Company | | | | | |
| Share capital | 15 | 102,158 | 102,158 | 102,158 | 102,158 |
| Reserves | 16 | 71,379 | 75,909 | 16,090 | 10,817 |
| | | 173,537 | 178,067 | 118,248 | 112,975 |
| Non-controlling interests | | 19,646 | 19,677 | – | – |
| Total equity | | 193,183 | 197,744 | 118,248 | 112,975 |
| Non-current liabilities | | | | | |
| Trade and other payables | 18 | – | 112 | – | 112 |
| Deferred tax liabilities | 8 | 614 | 909 | 354 | 647 |
| | | 614 | 1,021 | 354 | 759 |
| Current liabilities | | | | | |
| Trade and other payables | 18 | 45,376 | 47,316 | 6,289 | 10,418 |
| Tax payable | | 2,375 | 2,806 | – | – |
| | | 47,751 | 50,122 | 6,289 | 10,418 |
| Total liabilities | | 48,365 | 51,143 | 6,643 | 11,177 |
| Total equity and liabilities | | 241,548 | 248,887 | 124,891 | 124,152 |

The accompanying notes form an integral part of these financial statements.

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2016

| | Note | 2016 \$'000 | 2015 \$'000 |
|---|-------------|------------------------------|------------------------------|
| Revenue | 19 | 198,561 | 222,465 |
| Cost of sales | | (166,130) | (186,992) |
| Gross profit | | 32,431 | 35,473 |
| Other income | 20 | 8,665 | 9,628 |
| Selling and administrative expenses | | (27,883) | (29,488) |
| Other operating income, net | 21 | 1,604 | 2,403 |
| Results from operating activities | | 14,817 | 18,016 |
| Finance costs | 22 | – | (11) |
| Share of profit of joint venture (net of tax) | 7 | 94 | 432 |
| Profit before income tax | 23 | 14,911 | 18,437 |
| Tax expense | 24 | (3,049) | (1,755) |
| Profit for the year | | 11,862 | 16,682 |
| Profit for the year attributable to: | | | |
| Owners of the Company | | 10,539 | 14,070 |
| Non-controlling interests | | 1,323 | 2,612 |
| Profit for the year | | 11,862 | 16,682 |
| Earnings per share | | | |
| Basic and diluted earnings per share | 25 | 1.40 cents | 1.87 cents |

The accompanying notes form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2016

| | 2016 | 2015 |
|--|---------------|---------------|
| | \$'000 | \$'000 |
| Profit for the year | 11,862 | 16,682 |
| Other comprehensive income | | |
| <i>Items that are or may be reclassified subsequently to profit or loss:</i> | | |
| Foreign currency translation differences for foreign operations | (3,765) | (6,220) |
| Other comprehensive income for the year (net of tax) | (3,765) | (6,220) |
| Total comprehensive income for the year | 8,097 | 10,462 |
| Total comprehensive income attributable to: | | |
| Owners of the Company | 7,183 | 10,681 |
| Non-controlling interests | 914 | (219) |
| Total comprehensive income for the year | 8,097 | 10,462 |

The accompanying notes form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2016

| | Share capital \$'000 | Capital reserve \$'000 | Statutory reserve \$'000 | Revaluation reserve \$'000 | Share option reserve \$'000 | Foreign currency translation reserve \$'000 | Retained earnings \$'000 | Total attributable to equity holders of the Company \$'000 | Non-controlling interests \$'000 | Total equity \$'000 |
|---|----------------------|------------------------|--------------------------|----------------------------|-----------------------------|---|--------------------------|--|----------------------------------|---------------------|
| Note | | | | | | | | | | |
| At 1 January 2015 | 121,176 | 140 | 6,073 | 789 | 1,627 | (6,516) | 51,627 | 174,916 | 20,244 | 195,160 |
| Total comprehensive income for the year | | | | | | | | | | |
| Profit for the year | - | - | - | - | - | - | 14,070 | 14,070 | 2,612 | 16,682 |
| Other comprehensive income | | | | | | | | | | |
| Foreign currency translation differences | - | - | - | - | - | (3,389) | - | (3,389) | (2,831) | (6,220) |
| Total comprehensive income for the year | - | - | - | - | - | (3,389) | 14,070 | 10,681 | (219) | 10,462 |
| Transaction with owners, recognised directly in equity | | | | | | | | | | |
| Contributions by and distributions to owners | | | | | | | | | | |
| Dividends paid to owners of the Company | 30 | - | - | - | - | - | (3,765) | (3,765) | - | (3,765) |
| Dividends paid to non-controlling interests | 30 | - | - | - | - | - | - | - | (348) | (348) |
| Capital reduction | 15 | (19,018) | - | - | - | - | 15,253 | (3,765) | - | (3,765) |
| Total transactions with owners | (19,018) | - | - | - | - | - | 11,488 | (7,530) | (348) | (7,878) |
| Transfers between reserves | | | | | | | | | | |
| Transfers to statutory reserve | - | - | 488 | - | - | - | (488) | - | - | - |
| Transfers from share option reserve | 17 | - | - | - | (1,627) | - | 1,627 | - | - | - |
| At 31 December 2015 | 102,158 | 140 | 6,561 | 789 | - | (9,905) | 78,324 | 178,067 | 19,677 | 197,744 |

The accompanying notes form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2016

| | Share capital \$'000 | Capital reserve \$'000 | Statutory reserve \$'000 | Revaluation reserve \$'000 | Share option reserve \$'000 | Foreign currency translation reserve \$'000 | Retained earnings \$'000 | Total attributable to equity holders of the Company \$'000 | Non-controlling interests \$'000 | Total equity \$'000 |
|---|----------------------|------------------------|--------------------------|----------------------------|-----------------------------|---|--------------------------|--|----------------------------------|---------------------|
| Note | | | | | | | | | | |
| At 1 January 2016 | 102,158 | 140 | 6,561 | 789 | - | (9,905) | 78,324 | 178,067 | 19,677 | 197,744 |
| Total comprehensive income for the year | | | | | | | | | | |
| Profit for the year | - | - | - | - | - | - | 10,539 | 10,539 | 1,323 | 11,862 |
| Other comprehensive income | | | | | | | | | | |
| Foreign currency translation differences | - | - | - | - | - | (3,356) | - | (3,356) | (409) | (3,765) |
| Total comprehensive income for the year | - | - | - | - | - | (3,356) | 10,539 | 7,183 | 914 | 8,097 |
| Transaction with owners, recognised directly in equity | | | | | | | | | | |
| Contributions by and distributions to owners | | | | | | | | | | |
| Dividends paid to owners of the Company | 30 | - | - | - | - | - | (11,295) | (11,295) | - | (11,295) |
| Dividends paid to non-controlling interests | 30 | - | - | - | - | - | - | - | (1,363) | (1,363) |
| Acquisition of subsidiary from non-controlling interests | 31 | - | - | - | - | - | (418) | (418) | 418 | - |
| Total transactions with owners | - | - | - | - | - | - | (11,713) | (11,713) | (945) | (12,658) |
| Transfers between reserves | | | | | | | | | | |
| Transfers to statutory reserve | - | - | 1,055 | - | - | - | (1,055) | - | - | - |
| At 31 December 2016 | 102,158 | 140 | 7,616 | 789 | - | (13,261) | 76,095 | 173,537 | 19,646 | 193,183 |

The accompanying notes form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2016

| | Note | 2016 \$'000 | 2015 \$'000 |
|---|------|----------------|----------------|
| Cash flows from operating activities | | | |
| Profit before income tax | | 14,911 | 18,437 |
| Adjustments for: | | | |
| Depreciation of property, plant and equipment and investment property | 4, 5 | 9,791 | 13,769 |
| Gain on liquidation of subsidiary | 20 | – | (393) |
| Finance costs | 22 | – | 11 |
| Interest income | 20 | (1,883) | (1,805) |
| Gain on disposal of property, plant and equipment | 20 | (340) | (483) |
| Property, plant and equipment written off | 21 | 47 | 157 |
| Share of profit of joint venture (net of tax) | 7 | (94) | (432) |
| Unrealised foreign exchange loss | | 1,229 | 1,702 |
| | | 23,661 | 30,963 |
| Changes in working capital: | | | |
| Inventories | | (1,416) | 1,815 |
| Trade and other receivables | | 2,379 | 18,412 |
| Trade and other payables | | (286) | (14,009) |
| Cash from operating activities | | 24,338 | 37,181 |
| Tax paid | | (3,363) | (3,002) |
| Net cash from operating activities | | 20,975 | 34,179 |
| Cash flows from investing activities | | | |
| Dividends from joint venture | 7 | 374 | 667 |
| Interest income received | | 1,883 | 1,805 |
| Proceeds from disposal of property, plant and equipment | | 600 | 545 |
| Purchase of property, plant and equipment | | (6,988) | (6,327) |
| Withdrawal of short term investments | | 917 | 1,743 |
| Net cash used in investing activities | | (3,214) | (1,567) |
| Balance carried forward | | 17,761 | 32,612 |

The accompanying notes form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2016

| | Note | 2016 \$'000 | 2015 \$'000 |
|--|-------------|------------------------|------------------------|
| Balance brought forward | | 17,761 | 32,612 |
| Cash flows from financing activities | | | |
| Finance costs paid | | – | (11) |
| Proceeds from short term borrowings | | – | 1,106 |
| Repayment of short term borrowings and finance lease liabilities | | – | (2,520) |
| Dividends paid to non-controlling interests of a subsidiary | 30 | (1,363) | (348) |
| Dividends paid to owners of the Company | 30 | (11,295) | (3,765) |
| Capital reduction | 15 | – | (3,765) |
| Deposits pledged | | (95) | (27) |
| Net cash used in financing activities | | (12,753) | (9,330) |
| Net increase in cash and cash equivalents | | 5,008 | 23,282 |
| Cash and cash equivalents at 1 January | | 99,939 | 79,921 |
| Effect of exchange rate fluctuations on cash held | | (2,345) | (3,264) |
| Cash and cash equivalents at 31 December | 13 | 102,602 | 99,939 |

The accompanying notes form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

These notes form an integral part of the financial statements.

The financial statements were authorised for issue by the Board of Directors on 31 March 2017.

1 DOMICILE AND ACTIVITIES

Fu Yu Corporation Limited (the Company) is incorporated in the Republic of Singapore and has its registered office at 8 Tuas Drive 1, Singapore 638675. The Company is listed on the Singapore Exchange.

The principal activities of the Company are those of manufacturing and sub-assembly of precision plastic parts and components, fabrication of precision moulds and dies and investment holding. The principal activities of the Company's subsidiaries consist of manufacturing and sub-assembly of precision plastic parts and components, fabrication of precision moulds and dies, trading, provision of management services and investment holding.

The consolidated financial statements relate to the Company and its subsidiaries and the Group's interests in a joint venture.

2 BASIS OF PREPARATION

2.1 Statement of compliance

The financial statements have been prepared in accordance with the Singapore Financial Reporting Standards (FRS).

2.2 Basis of measurement

The financial statements have been prepared on the historical cost basis except for certain financial assets and liabilities which are measured at fair value or amortised cost.

2.3 Functional and presentation currency

These financial statements are presented in Singapore dollars, which is the Company's functional currency. All financial information presented in Singapore dollars has been rounded to the nearest thousand, unless otherwise stated.

2.4 Use of estimates and judgements

The preparation of financial statements in conformity with FRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

2 BASIS OF PREPARATION (CONT'D)

2.4 Use of estimates and judgements (cont'd)

Information about significant areas of estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are included in the following notes:

- Notes 3.7 and 27 – allowance for impairment of doubtful receivables
- Notes 3.7 and 4 – measurement of recoverable amounts of property, plant and equipment
- Notes 6 and 11 – recoverability of investments in and amounts due from subsidiaries
- Notes 8 and 24 – provision for income tax and recoverability of deferred tax assets

Information about critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements is included in the following note:

- Note 5 – classification of investment property

Measurement of fair values

A number of the Group's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

When measuring the fair value of an asset or a liability, the Group uses observable market data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability fall into different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement (with Level 3 being the lowest).

Further information about the assumptions made in measuring fair values is included in the following notes:

- Note 4 – property, plant and equipment
- Note 5 – investment property
- Note 27 – financial risk management

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

3 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these financial statements, and have been applied consistently by Group entities.

3.1 Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at the exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortised cost in foreign currency translated at the exchange rate at the end of the year.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured in terms of historical cost are translated using the exchange rate at the date of the transaction. Foreign currency differences arising on translation are recognised in profit or loss.

(ii) Foreign operations

The assets and liabilities of foreign operations, excluding goodwill and fair value adjustments arising on acquisition, are translated to Singapore dollars at exchange rates at the reporting date. The income and expenses of foreign operations are translated to Singapore dollars at the average exchange rates for the year, which approximates the exchange rates at the dates of the transactions. Goodwill and fair value adjustments arising on the acquisition of a foreign operation on or after 1 January 2005 are treated as assets and liabilities of the foreign operation and are translated at the exchange rates at the reporting date. For acquisitions prior to 1 January 2005, the exchange rates at the date of acquisition were used.

Foreign currency differences are recognised in other comprehensive income, and presented in the foreign currency translation reserve (translation reserve) in equity. However, if the foreign operation is a non wholly-owned subsidiary, then the relevant proportionate share of the translation difference is allocated to the non-controlling interests. When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interests. When the Group disposes of only part of its investment in an associate or joint venture that includes a foreign operation while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

3 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.1 Foreign currency (cont'd)

(ii) Foreign operations (cont'd)

When the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, foreign exchange gains and losses arising from such a monetary item that are considered to form part of a net investment in a foreign operation are recognised in other comprehensive income, and are presented in the translation reserve in equity.

3.2 Basis of consolidation

(i) Business combinations

Business combinations are accounted for using the acquisition method in accordance with FRS 103 *Business Combinations* as at the acquisition date, which is the date on which control is transferred to the Group.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Any contingent consideration payable is recognised at fair value at the date of acquisition and included in the consideration transferred. If the contingent consideration that meets the definition of a financial instrument is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, other contingent consideration is remeasured at fair value at each reporting date and subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

When share-based payment awards (replacement awards) are required to be exchanged for awards held by the acquiree's employees (acquiree's awards) and relate to past services, then all or a portion of the amount of the acquirer's replacement awards is included in measuring the consideration transferred in the business combination. This determination is based on the market-based value of the replacement awards compared with the market-based value of the acquiree's awards and the extent to which the replacement awards relate to past and/or future service.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the acquiree's net assets in the event of liquidation are measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets, at the date of acquisition. The measurement basis taken is elected on a transaction-by-transaction basis. All other non-controlling interests are measured at acquisition-date fair value, unless another measurement basis is required by FRSs.

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

3 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.2 Basis of consolidation (cont'd)

(i) Business combinations (cont'd)

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as transactions with owners in their capacity as owners and therefore no adjustments are made to goodwill and no gain or loss is recognised in profit or loss. Adjustments to non-controlling interest arising from transactions that do not involve the loss of control are based on a proportionate amount of the net assets of the subsidiary.

(ii) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

(iii) Loss of control

Upon the loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently, it is accounted for as an equity-accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

(iv) Investment in joint ventures

A joint venture is an arrangement in which the Group has joint control, whereby the Group has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities.

Investments in joint ventures is accounted for using the equity method. They are recognised initially at cost, which includes transaction costs. Subsequent to initial recognition, the consolidation financial statements include the Group's share of the profit or loss and other comprehensive income of joint venture, after adjustments to align the accounting policies with those of the Group, from the date that joint control commences until the date that joint control ceases.

When the Group's share of losses exceeds its interest in an equity-accounted joint venture, the carrying amount of the investment, together with any long-term interests that form part thereof, is reduced to zero, and the recognition of further losses is discontinued except to the extent that the Group has an obligation to fund the investee's operations or has made payments on behalf of the investee.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

3 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.2 Basis of consolidation (cont'd)

- (v) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with a joint venture are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

- (vi) Subsidiaries and joint ventures in the separate financial statements

Investments in subsidiaries and joint ventures are stated in the Company's statement of financial position at cost less accumulated impairment losses.

3.3 Property, plant and equipment

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses except that certain items of leasehold property were subject to one-off revaluation conducted in 1994. Any related revaluation reserve is transferred to accumulated profits upon the disposal of an item of the property, plant and equipment.

Cost includes expenditure that is directly attributable to the acquisition of the asset.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

The gain or loss on disposal of an item of property, plant and equipment (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in profit or loss.

The cost of replacing a component of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the Group, and its cost can be measured reliably. The carrying amount of the replaced component is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

Depreciation is based on the cost of an asset less its residual value. Significant components of individual assets are assessed and if a component has a useful life that is different from the remainder of that asset, that component is depreciated separately.

Depreciation is recognised as an expense in profit or loss on a straight-line basis over the estimated useful lives of each component of an item of property, plant and equipment, unless it is included in the carrying amount of another asset. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Freehold land is not depreciated.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

3 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.3 Property, plant and equipment (cont'd)

Depreciation is recognised from the date that the property, plant and equipment are installed and are ready for use from the date that the asset is completed and ready for use.

The estimated useful lives for the current and comparative periods are as follows:

| | |
|---|--|
| Leasehold properties | Over the term of the respective leases ranging from 20 to 60 years |
| Factory equipment, plant and machinery | 3 to 10 years |
| Motor vehicles | 5 years |
| Office equipment and furniture and fittings | 3 to 5 years |
| Other assets | 2 to 10 years |

No depreciation is recognised on construction-in-progress. Other assets comprise electrical installations, erectable stores, renovations and leasehold improvements.

Depreciation methods, useful lives and residual values are reviewed at the end of each reporting period and adjusted if appropriate.

3.4 Investment property

Investment property is property held either to earn rental income or capital appreciation or for both, but not for sale in the ordinary course of business, used in the production or supply of goods or services or for administrative purposes. Investment property is measured at cost on initial recognition and subsequently carried at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the investment property.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful life of the investment property. The estimated useful life is 60 years. The depreciation method, the useful life and the residual value of investment property are reassessed at the end of each reporting period.

When the use of a property changes such that it is reclassified as property, plant and equipment, its cost, accumulated depreciation and accumulated impairment losses at the date of reclassification will be transferred to property, plant and equipment for subsequent accounting.

3.5 Financial instruments

(i) Non-derivative financial assets

The Group initially recognises loans and receivables on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognised initially on the trade date, which is the date that the Group becomes a party to the contractual provisions of the instrument.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

3 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.5 Financial instruments (cont'd)

(i) Non-derivative financial assets (cont'd)

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group currently has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group classifies non-derivative financial assets into the following categories: financial assets at fair value through profit or loss and loans and receivables.

Financial assets at fair value through profit or loss

A financial asset is classified at fair value through profit or loss if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Group's investment strategy. Attributable transaction costs are recognised in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein, which takes into account any dividend income, are recognised in profit or loss.

Financial assets designated at fair value through profit or loss comprise short term investments in money market fund and trust funds.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are initially measured at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Loans and receivables comprise cash and cash equivalents, and trade and other receivables.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and bank deposits. For the purpose of the statement of cash flows, pledged deposits are excluded whilst bank overdrafts that are repayable on demand and that form an integral part of the Group's cash management are included in cash and cash equivalents.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

3 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.5 Financial instruments (cont'd)

(ii) Non-derivative financial liabilities

The Group initially recognises financial liabilities (including liabilities designated at fair value through profit or loss) on the trade date which is the date that the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or when they expire.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group currently has a legally enforceable right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group classifies non-derivative financial liabilities into other financial liabilities category.

Other financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

These financial liabilities comprise trade and other payables.

(iii) Intra-group financial guarantees in the separate financial statements

Financial guarantees are financial instruments issued by the Group that requires the issuer to make specified payments to reimburse the holder for the loss it incurs because a specified debtor fails to meet payment when due in accordance with the original or modified terms of a debt instrument.

Financial guarantees are recognised initially at fair value and are classified as financial liabilities. Subsequent to initial measurement, the financial guarantees are stated at the higher of the initial fair value less cumulative amortisation and the amount that would be recognised if they were accounted for as contingent liabilities. When financial guarantees are terminated before their original expiry date, the carrying amount of the financial guarantees is transferred to profit or loss.

(iv) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

3 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.6 Leases

When entities within the Group are lessees of a finance lease

Leased assets in which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

When entities within the Group are lessees of an operating lease

Other leases are operating leases and are not recognised in the Group's statement of financial position. Where the Group has the use of assets under operating leases, payments made under the leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised in profit or loss as an integral part of the total lease payments made.

3.7 Impairment

Financial assets

A financial asset not carried at fair value through profit or loss, including an interest in a joint venture, is assessed at the end of each reporting period to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers, economic conditions that correlate with defaults or the disappearance of an active market for a security.

The Group considers evidence of impairment for receivables on a specific asset level.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and receivables. Interest on the impaired asset continues to be recognised. When the Group considers that there are no realistic prospects of recovery of the asset, the relevant amounts are written off. If the amount of impairment loss subsequently decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, then the previously recognised impairment loss is reversed through profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

3 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.7 Impairment (cont'd)

Non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit (CGU) exceeds its estimated recoverable amount.

The recoverable amount of an asset or CGU is the greater of its value-in-use and its fair value less costs to sell. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGU.

The Group's corporate assets do not generate separate cash inflows and are utilised by more than one CGU. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU to which the corporate asset belongs.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amounts of the assets in the CGU (group of CGUs) on a *pro rata* basis.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

3.8 Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the weighted average cost formula and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work-in-progress, cost includes an appropriate share of production overheads based on normal operating capacity.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

3 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.9 Employee benefits

Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in profit or loss in the periods during which related services are rendered by employees.

Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

3.10 Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

3.11 Revenue recognition

Sale of goods

Revenue from the sale of goods in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably.

The timing of the transfer of risks and rewards vary depending on the individual terms of the sales agreement. For sales of products, transfer usually occurs when the product is received at the customer's warehouse; however, for some international shipments, transfer occurs upon loading of the goods onto the relevant carrier at the port.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

3 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.11 Revenue recognition (cont'd)

Tooling contracts

Tooling revenue and costs are recognised as revenue and expenses, respectively, by reference to the stage of completion of the contract activity at the reporting date. The percentage of completion is measured by reference to the stage and progress of work performed, based on records maintained by the divisions. An expected loss on the construction contract is recognised as an expense when it is probable that total costs will exceed total contract revenue.

Tooling contracts in progress represent the gross unbilled amount expected to be collected from customers for contract work performed to date. It is measured at cost plus profit recognised to date less progress billings and recognised losses. Cost includes all expenditure related directly to specific projects and an allocation of fixed and variable overheads incurred in the Group's contract activities based on normal operating capacity.

When the total costs incurred on tooling contracts plus recognised profits (less recognised losses) exceed progress billings, the balance is classified as amount due from customers for contract work. When progress billings exceed costs incurred plus recognised profits (less recognised losses), the balance is classified as amount due to customers for contract work.

Rental income

Rental income receivable under operating leases is recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease. Rental income from subleased property is recognised as other income.

3.12 Finance costs

Finance costs comprise interest expense on borrowings and finance leases. All borrowing costs are recognised in profit or loss. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

3.13 Other operating income/expense

Other operating expense includes plant and equipment written off and allowance for doubtful receivables. Foreign currency gains and losses on financial assets and financial liabilities are reported on a net basis as either other operating income or other operating expense depending on whether foreign currency movements are in a net gain or net loss position.

3.14 Government grants

Government grants are recognised initially as deferred income at fair value when there is reasonable assurance that they will be received and the Group will comply with the conditions associated with the grant. These grants are then recognised in profit or loss as 'other income' on a systematic basis over the useful life of the asset. Grants that compensate the Group for expenses incurred are recognised in profit or loss as 'other income' on a systematic basis in the same periods in which the expenses are recognised.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

3 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.15 Tax

Tax expense comprises current and deferred tax. Current and deferred tax is recognised in profit or loss except to the extent that it relates to items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable or recoverable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries and joint ventures to the extent that the Group is able to control the timing of the reversal of the temporary difference and it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

The measurement of deferred taxes reflects the tax consequences that would follow the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

In the ordinary course of business, there are many transactions and calculations for which the ultimate tax treatment is uncertain. Therefore, the Group recognises tax liabilities based on estimates of whether additional taxes and interest will be due. These tax liabilities are recognised when the Group believes that certain positions may not be fully sustained upon review by tax authorities, despite the Group's belief that its tax return positions are supportable. The Group believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgements about future events. New information may become available that causes the Group to change its judgement regarding the adequacy of existing tax liabilities, such changes to tax liabilities will impact tax expense in the period that such a determination is made.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

3 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.16 Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the year, adjusted for own shares held. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders of the Company and the weighted average number of ordinary shares outstanding, adjusted for own shares held, for the effects of all dilutive potential ordinary shares, which comprise share options granted to directors and employees.

3.17 Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenue and incur expenses, including revenue and expenses that relate to transactions with any of the Group's other components. All operating segment's operating results are reviewed regularly by the Group's Board of Directors to make decisions about resources to be allocated to the segment and to assess its performance, and for which discrete financial information is available.

Segment results that are reported to the Board of Directors include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly tax assets and liabilities.

Segment capital expenditure is the total cost incurred during the year to acquire property, plant and equipment.

3.18 New standards and interpretations not adopted

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2016 and earlier application is permitted; however, the Group has not early applied the following new or amended standards in preparing these statements.

For those new standards and amendments to standards that are expected to have an effect on the financial statements of the Group and the Company in future financial periods, the Group is currently assessing the potential impact on its financial statements, and to implement these standards. The Group does not plan to adopt these standards early.

These new standards include, among others, FRS 115 *Revenue from Contracts with Customers* and FRS 109 *Financial Instruments* which are mandatory for adoption by the Group for annual periods beginning on or after 1 January 2018, and FRS 116 *Leases* which is mandatory for adoption by the Group for annual periods beginning on or after 1 January 2019.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

3 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.18 New standards and interpretations not adopted (cont'd)

FRS 115 Revenue from Contracts with Customers

FRS 115 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It also introduces new cost guidance which requires certain costs of obtaining and fulfilling contracts to be recognised as separate assets when specified criteria are met. When effective, FRS 115 replaces existing revenue recognition guidance, including FRS 18 *Revenue*, FRS 11 *Construction Contracts*, INT FRS 113 *Customer Loyalty Programmes*, INT FRS 115 *Agreements for the Construction of Real Estate*, INT FRS 118 *Transfers of Assets from Customers* and INT FRS 31 *Revenue – Barter Transactions Involving Advertising Services*.

FRS 109 Financial Instruments

FRS 109 replaces most of the existing guidance in FRS 39 *Financial Instruments: Recognition and Measurement*. It includes revised guidance on classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets and new general hedge accounting requirements.

FRS 116 Leases

The standard replaces FRS 17 *Leases*, INT FRS 104 *Determining whether an Arrangement contains a Lease*, INT FRS 15 *Operating Leases – Incentives*, and INT FRS 27 *Evaluating the Substance of Transactions Involving the Legal Form of a lease*.

FRS 116 eliminates the lessee's classification of leases as either operating leases or finance leases and introduces a single lessee accounting model. Applying the new model, a lessee is required to recognise right-of-use (ROU) assets and lease liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value.

Convergence with International Financial Reporting Standards (IFRS)

The Accounting Standards Council (ASC) announced on 29 May 2014 that Singapore-incorporated companies listed on the Singapore Exchange (SGX) will apply a new financial reporting framework identical to the International Financial Reporting Standards (IFRS) for financial year ending 31 December 2018 onwards. The Group is currently assessing the impact of transitioning to the new reporting framework on its financial statements.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

4 PROPERTY, PLANT AND EQUIPMENT

| | Leasehold properties \$'000 | Factory equipment, plant and machinery \$'000 | Motor vehicles \$'000 | Office equipment, and fittings \$'000 | Other assets \$'000 | Construction in progress \$'000 | Total \$'000 |
|---|--------------------------------|---|-----------------------------|--|---------------------------|---------------------------------------|-----------------|
| Group Cost | | | | | | | |
| At 1 January 2015 | 75,583 | 245,689 | 2,399 | 12,879 | 10,942 | 231 | 347,723 |
| Currency realignment | (770) | (493) | (71) | (31) | (427) | (16) | (1,808) |
| Additions | 862 | 3,879 | 156 | 524 | 785 | - | 6,206 |
| Reclassification | 54 | - | - | - | - | (54) | - |
| Reclassification to other receivables | - | - | - | - | - | (86) | (86) |
| Disposals/Write-off | - | (9,457) | (211) | (909) | (492) | (75) | (11,144) |
| At 31 December 2015 | 75,729 | 239,618 | 2,273 | 12,463 | 10,808 | - | 340,891 |
| At 1 January 2016 | 75,729 | 239,618 | 2,273 | 12,463 | 10,808 | - | 340,891 |
| Currency realignment | (1,753) | (4,741) | (54) | (261) | (283) | - | (7,092) |
| Additions | 497 | 3,646 | 674 | 1,566 | 216 | - | 6,599 |
| Disposals/Write-off | (65) | (7,117) | (339) | (2,142) | (74) | - | (9,737) |
| At 31 December 2016 | 74,408 | 231,406 | 2,554 | 11,626 | 10,667 | - | 330,661 |
| Accumulated depreciation and accumulated impairment losses | | | | | | | |
| At 1 January 2015 | 39,000 | 227,252 | 1,718 | 11,461 | 6,898 | - | 286,329 |
| Currency realignment | 237 | (260) | (65) | (26) | (357) | - | (471) |
| Depreciation for the year | 2,802 | 7,819 | 271 | 630 | 2,037 | - | 13,559 |
| Disposals/Write-off | - | (9,336) | (211) | (907) | (471) | - | (10,925) |
| At 31 December 2015 | 42,039 | 225,475 | 1,713 | 11,158 | 8,107 | - | 288,492 |
| At 1 January 2016 | 42,039 | 225,475 | 1,713 | 11,158 | 8,107 | - | 288,492 |
| Currency realignment | (959) | (4,218) | (41) | (226) | (252) | - | (5,696) |
| Depreciation for the year | 2,440 | 5,555 | 255 | 643 | 699 | - | 9,592 |
| Disposals/Write-off | (26) | (6,876) | (320) | (2,140) | (68) | - | (9,430) |
| At 31 December 2016 | 43,494 | 219,936 | 1,607 | 9,435 | 8,486 | - | 282,958 |
| Carrying amounts | | | | | | | |
| At 1 January 2015 | 36,583 | 18,437 | 681 | 1,418 | 4,044 | 231 | 61,394 |
| At 31 December 2015 | 33,690 | 14,143 | 560 | 1,305 | 2,701 | - | 52,399 |
| At 31 December 2016 | 30,914 | 11,470 | 947 | 2,191 | 2,181 | - | 47,703 |

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

4 PROPERTY, PLANT AND EQUIPMENT (CONT'D)

| | Leasehold properties \$'000 | Factory equipment, plant and machinery \$'000 | Motor vehicles \$'000 | Office equipment, and furniture and fittings \$'000 | Other assets \$'000 | Total \$'000 |
|---|--------------------------------|---|--------------------------|--|------------------------|-----------------|
| Company Cost | | | | | | |
| At 1 January 2015 | 29,526 | 22,890 | 741 | 3,350 | 1,898 | 58,405 |
| Additions | - | 640 | - | 57 | 41 | 738 |
| Disposals/Write-off | - | (2,658) | - | (581) | (193) | (3,432) |
| Transferred to subsidiaries (net) | - | (428) | - | (9) | - | (437) |
| At 31 December 2015 | 29,526 | 20,444 | 741 | 2,817 | 1,746 | 55,274 |
| At 1 January 2016 | 29,526 | 20,444 | 741 | 2,817 | 1,746 | 55,274 |
| Additions | - | 63 | 630 | 903 | - | 1,596 |
| Disposals/Write-off | - | (2,159) | (242) | (1,131) | (26) | (3,558) |
| Transferred to subsidiaries | - | - | - | (1) | - | (1) |
| At 31 December 2016 | 29,526 | 18,348 | 1,129 | 2,588 | 1,720 | 53,311 |
| Accumulated depreciation and accumulated impairment losses | | | | | | |
| At 1 January 2015 | 19,110 | 21,521 | 425 | 3,170 | 1,495 | 45,721 |
| Depreciation for the year | 713 | 275 | 107 | 113 | 131 | 1,339 |
| Disposals/Write-off | - | (2,646) | - | (581) | (191) | (3,418) |
| Transferred to subsidiaries | - | (428) | - | (9) | - | (437) |
| At 31 December 2015 | 19,823 | 18,722 | 532 | 2,693 | 1,435 | 43,205 |
| At 1 January 2016 | 19,823 | 18,722 | 532 | 2,693 | 1,435 | 43,205 |
| Depreciation for the year | 713 | 274 | 109 | 239 | 134 | 1,469 |
| Disposals/Write-off | - | (2,158) | (222) | (1,131) | (26) | (3,537) |
| Transferred to subsidiaries | - | - | - | (1) | - | (1) |
| At 31 December 2016 | 20,536 | 16,838 | 419 | 1,800 | 1,543 | 41,136 |
| Carrying amounts | | | | | | |
| At 1 January 2015 | 10,416 | 1,369 | 316 | 180 | 403 | 12,684 |
| At 31 December 2015 | 9,703 | 1,722 | 209 | 124 | 311 | 12,069 |
| At 31 December 2016 | 8,990 | 1,510 | 710 | 788 | 177 | 12,175 |

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

4 PROPERTY, PLANT AND EQUIPMENT (CONT'D)

Impairment loss

Certain CGUs in China, Singapore and Malaysia continued to incur operating losses whereas other CGUs, whose financial performance had improved, had shown indication that impairment losses which were recognised in prior periods may no longer exist or may have decreased. This resulted in the Group reassessing the recoverable amount of the property, plant and equipment.

The recoverable amounts of the CGUs were estimated based on the higher of fair value less cost to sell and their value-in-use. As the operations of the CGUs located within the same country are similar in nature, therefore the assumptions used in projecting the value-in-use are disclosed below by such geographical locations.

The approach to determine the recoverable amounts of the CGUs is categorised as follows:

- CGUs that are loss-making and are not expected to generate any economic benefits in the period of forecast. The recoverable amounts of such CGUs have been determined based on the fair value of its monetary assets and liabilities.
- CGUs that are loss-making but are expected to be able to generate economic benefits through liquidation of its leasehold properties and plant and machineries. The recoverable amounts of the CGUs have been determined based on the fair value less cost to sell of the assets. The fair value less cost to sell is based on market valuation performed by independent valuers with experience in the location and category of the properties and machineries being valued.
- The recoverable amount of all other CGUs have been determined based on the calculation of their value-in-use derived from management's cash flows projections for these CGUs.

Key assumptions used in the calculation of the value-in-use are as follows:

| | China CGUs | | Malaysia CGUs |
|---|-------------------|-------------|-------------------------|
| | 2016 | 2015 | 2015[#] |
| <u>Value-in-use assumptions:</u> | | | |
| Average growth rate in revenue | -1% to 12% | -9% to 53% | 0% to 2% |
| Number of years projected in the discounted cash flows | 5 years | 5 years | 5 years |
| Gross profit margin | 14% to 27% | 12% to 25% | 17% |
| Terminal value of property, plant and equipment (as a % of cost) | 2% | 2% | – |
| Terminal value of leasehold property and plant and machinery (\$'000) | – | – | \$8,733 |
| Pre-tax discount rate | 19% to 21% | 20% to 22% | 13% |

Fair value less cost to sell approach was used in 2016.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

4 PROPERTY, PLANT AND EQUIPMENT (CONT'D)

Impairment loss (cont'd)

The growth rate in the China CGUs can be explained by forecasted fluctuations in market demand from end customers. If any of the CGUs is not able to meet the forecasted results, the Group may be required to record additional impairment loss.

The fair value measurement is categorised as level 3 under the fair value hierarchy (see note 2.4). Details of valuation techniques and key inputs used are as follows:

| Type | Valuation technique | Significant unobservable inputs |
|--------------------------|-------------------------------------|--|
| Long term leasehold land | Comparison method | Comparing the property with comparable properties which have been sold or are being offered for sale and making adjustments for factors which affect value such as location and accessibility, market conditions, size, shape and terrain of land. |
| Buildings | Depreciated replacement cost method | Aggregated amount of gross replacement cost of the buildings and other site works from which appropriate deductions may then be made for the age, condition, economic or functional obsolescence and environmental factors. |
| Plant and machinery | Depreciated replacement cost method | Aggregated amount of gross replacement cost of the plant and machinery, from which appropriate deductions may then be made for the age, condition, functional and technological obsolescence factors. |

5 INVESTMENT PROPERTY

| | Group \$'000 |
|---------------------------------|-----------------|
| Cost | |
| At 1 January 2015 | 11,689 |
| Currency realignment | (1,511) |
| At 31 December 2015 | 10,178 |
| At 1 January 2016 | 10,178 |
| Currency realignment | (210) |
| At 31 December 2016 | 9,968 |
| Accumulated depreciation | |
| At 1 January 2015 | 1,604 |
| Depreciation for the year | 210 |
| Currency realignment | (221) |
| At 31 December 2015 | 1,593 |
| At 1 January 2016 | 1,593 |
| Depreciation for the year | 199 |
| Currency realignment | (39) |
| At 31 December 2016 | 1,753 |
| Carrying amounts | |
| At 1 January 2015 | 10,085 |
| At 31 December 2015 | 8,585 |
| At 31 December 2016 | 8,215 |

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

5 INVESTMENT PROPERTY (CONT'D)

The buildings are leased to Berry Plastics Malaysia Sdn Bhd, a joint venture of the Group, and a third party.

The fair value of the investment property (fair value hierarchy of level 3) as at 31 December 2016 amounts to approximately \$8,701,000 (2015: \$9,069,000) and has been determined based on valuations performed by accredited independent valuers with recent experience in the location and category of investment properties being valued. The valuations are based on comparison method and the depreciated replacement cost method. The depreciated replacement cost method makes reference to the cost of replacing the buildings as new and allowing for depreciation. Key unobservable inputs correspond to replacement costs having regard to asset life, physical deterioration, functional and economic obsolescence. The comparison method involves comparing and adopting recent transactions as a yardstick and sale evidences involving other similar properties in the vicinity. The Group has assessed that the best use of its properties do not differ from their current use.

The Group has certain leasehold land held to earn rental income and also for own production or supply of goods and administrative purposes. If a portion of the property cannot be sold or leased out separately under a finance lease, the entire property is classified as investment property only if the portion of the property held for own use is insignificant. Judgement is involved in determining the allocation of investment property and property, plant and equipment.

6 SUBSIDIARIES

| | Company | |
|--|----------------|---------------|
| | 2016 | 2015 |
| | \$'000 | \$'000 |
| Equity investments, at cost | 116,403 | 118,820 |
| Forgiveness of amounts due from a subsidiary | 9,331 | 9,331 |
| | 125,734 | 128,151 |
| Impairment losses | (100,024) | (98,843) |
| | 25,710 | 29,308 |
| Amounts due from subsidiaries | 48,646 | 48,160 |
| Impairment losses | (13,190) | (11,875) |
| | 35,456 | 36,285 |
| | 61,166 | 65,593 |

Certain amounts due from subsidiaries were in substance part of the shareholders' net investments in the entities as the settlement of these amounts are neither planned nor likely to occur in the foreseeable future. Accordingly, these balances are classified as quasi-equity investment in subsidiaries and are stated at cost.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

6 SUBSIDIARIES (CONT'D)

Impairment loss

Certain subsidiaries in China and Singapore continued to incur operating losses whereas other subsidiaries, whose financial performance had improved, had shown indication that impairment losses which were recognised in prior periods may no longer exist or may have decreased. Accordingly, the Company performed an assessment of the recoverable amount of its investments in subsidiaries and its receivables from these subsidiaries. The recoverable amounts of investments and receivables from these subsidiaries were estimated based on the higher of fair value less cost to sell and value-in-use.

The approach to determine the recoverable amounts of investments and receivables from subsidiaries is categorised as follows:

- Investments and receivables from subsidiaries that are loss-making and are not expected to generate any economic benefits in the period of forecast, including investments and receivables from subsidiaries that are considered for their potential liquidation. The recoverable amount of such investments and receivables from subsidiaries has been determined to be the fair value of its monetary assets and liabilities. For subsidiaries that are loss-making but expected to generate economic benefits through liquidation of its leasehold properties and plant and machineries, the recoverable amounts have been determined based on the fair value less cost to sell of these assets. Details on fair value measurement for property, plant and equipment is disclosed in note 4.
- The recoverable amount of investments and receivables from the remaining subsidiaries have been determined based on the calculation of their value-in-use derived from management's cash flows projections.

Based on management's assessment, additional net impairment loss of \$4,913,000 (2015: \$1,356,000) was recognised in profit or loss. The recoverable amount of the CGUs based on fair value less cost to sell approach was \$25,069,000 (2015: \$37,057,000). If any of the subsidiaries is not able to achieve the forecasted results and realise the fair values of the assets and liabilities, the Company would be required to record additional impairment loss.

The movements in the allowance for impairment in respect of investments in subsidiaries and amounts due from subsidiaries during the year are as follows:

| | Company | |
|---------------------------------|----------------|----------------|
| | 2016 | 2015 |
| | \$'000 | \$'000 |
| At 1 January | 110,718 | 109,362 |
| Impairment loss during the year | 4,913 | 1,356 |
| Impairment written off | (2,417) | – |
| At 31 December | <u>113,214</u> | <u>110,718</u> |

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

6 SUBSIDIARIES (CONT'D)

Details of the subsidiaries are as follows:

| Name of company | Note | Country of incorporation/ Place of business | Effective equity interest held by the Group | |
|---|------|--|---|-----------|
| | | | 2016 % | 2015 % |
| <u>Held by the Company:</u> | | | | |
| Chang Fu Resources Pte Ltd* | | Singapore | – | 100 |
| Fu Yu Investment Pte Ltd ¹ | | Singapore | 100 | 100 |
| NanoTechnology Manufacturing Pte Ltd ¹ | 31 | Singapore | 100 | 80 |
| SolidMicron Technologies Pte Ltd ¹ | | Singapore | 100 | 100 |
| Fu Yu Electronics (Dongguan) Co., Ltd. [#] | | People's Republic of China | 100 | 100 |
| Fu Yu Moulding & Tooling (Dongguan) Co., Ltd. ² | | People's Republic of China | 100 | 100 |
| Fu Yu Moulding & Tooling (Suzhou) Co., Ltd. ³ | | People's Republic of China | 100 | 100 |
| Fu Yu Moulding & Tooling (Wujiang) Co., Ltd. [#] | | People's Republic of China | 100 | 100 |
| Fu Yu Moulding & Tooling (Zhuhai) Co., Ltd. ⁴ | | People's Republic of China | 100 | 100 |
| Fu Yu Moulding & Tooling (Shanghai) Co., Ltd. ⁵ | | People's Republic of China | 100 | 100 |
| Fu Yu International Enterprise Limited ⁶ | | Hong Kong | 100 | 100 |
| Fu Yu Trading Limited ⁶ | | Hong Kong | 100 | 100 |
| <u>Held through Fu Yu Moulding & Tooling (Shanghai) Co., Ltd.:</u> | | | | |
| Fu Yu Moulding & Tooling (Chongqing) Co., Ltd. ⁷ | | People's Republic of China | 100 | 100 |
| <u>Held through Fu Yu Investment Pte Ltd:</u> | | | | |
| LCTH Corporation Berhad ⁸ | | Malaysia | 70.64 | 70.64 |
| <u>Held through LCTH Corporation Berhad:</u> | | | | |
| Fu Hao Manufacturing (M) Sdn. Bhd. ⁸ | | Malaysia | 70.64 | 70.64 |
| Classic Advantage Sdn. Bhd. ⁸ | | Malaysia | 70.64 | 70.64 |

* Chang Fu Resources Pte Ltd was in the process of striking off as at 31 December 2016.

under members' voluntary liquidation

¹ Audited by KPMG Singapore

² Audited by GuangDong CCAT Certified Public Accountants Co., Ltd

³ Audited by Suzhou Sucheng C.P.A Co., Ltd

⁴ Audited by Zhuhai GuoRui Certified Public Accountants Co., Ltd

⁵ Audited by Shanghai Xinqu Certified Public Accountants Co., Ltd

⁶ Audited by Alliot, Tsoi CPA Limited

⁷ Audited by Wongga Partners Certified Public Accounts (SZ) General Partner (2015: Chongqing Zhongchao Accountants Firm)

⁸ Audited by Ernst & Young, Malaysia

KPMG Singapore is the auditor of all Singapore-incorporated subsidiaries other than Chang Fu Resources Pte Ltd. Other member firms of KPMG International are auditors of significant foreign-incorporated subsidiaries for consolidation purposes, except for LCTH Corporation Berhad and its subsidiaries, which are audited by Ernst & Young, Malaysia.

For this purpose, a subsidiary is considered significant as defined under the Singapore Exchange Limited Listing Manual if its net tangible assets represent 20% or more of the Group's consolidated net tangible assets, or if its pre-tax profits account for 20% or more of the Group's consolidated pre-tax profits.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

6 SUBSIDIARIES (CONT'D)

The following summarises the financial information of the Group's subsidiaries with material non-controlling interest (NCI), based on their consolidated financial statements prepared in accordance with FRS, modified for fair value adjustments on acquisition and differences in the Group's accounting policies.

LCTH Corporation Berhad and its subsidiaries

| | 2016 | 2015 |
|--|---------------|---------------|
| | \$'000 | \$'000 |
| Revenue | 37,936 | 42,233 |
| Profit for the year | 4,843 | 8,805 |
| Other comprehensive income | – | – |
| Total comprehensive income | 4,843 | 8,805 |
| Attributable to NCI: | | |
| – Profit for the year | 1,422 | 2,585 |
| – Other comprehensive income | – | – |
| Total comprehensive income attributable to NCI | 1,422 | 2,585 |
| Non-current assets | 26,300 | 28,096 |
| Current assets | 48,396 | 50,024 |
| Non-current liabilities | (263) | (262) |
| Current liabilities | (7,516) | (9,636) |
| Net assets | 66,917 | 68,222 |
| Net assets attributable to NCI | 19,646 | 20,030 |
| Cash flows from operating activities | 5,748 | 8,212 |
| Cash flows used in investing activities | 3,135 | (287) |
| Cash flows used in financing activities (dividends to NCI: \$1,363,000) | (4,810) | (1,280) |
| Net increase in cash and cash equivalents | 4,073 | 6,645 |

7 JOINT VENTURE

The joint venture company Berry Plastics Malaysia Sdn Bhd's principal activities are those of manufacturing and assembly of precision plastic moulded products for electrical, electronics, healthcare, food and petroleum industries. The accounting model applied is equity model. Details of the joint venture are as follows:

| Name of company | Country of incorporation/ Place of business | Effective equity interest held by the Group | |
|-----------------------------------|--|---|-----------|
| | | 2016 % | 2015 % |
| Berry Plastics Malaysia Sdn Bhd * | Malaysia | 28.26 | 28.26 |

* Audited by PricewaterhouseCoopers, Malaysia.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

7 JOINT VENTURE (CONT'D)

The joint venture is held through its subsidiary, LCTH Corporation Berhad which has a 40% equity ownership interests in the entity.

The following table summarises the financial information of the joint venture, based on its financial statements prepared in accordance with FRS, modified for fair value adjustments on acquisition and differences in the Group's accounting policies:

| | 2016 | 2015 |
|--|---------------|---------------|
| | \$'000 | \$'000 |
| Revenue | 3,809 | 6,625 |
| Profit after income tax [#] | 234 | 1,081 |
| Other comprehensive income | – | – |
| Total comprehensive income | 234 | 1,081 |
| Assets and liabilities | | |
| Non-current assets | 384 | 853 |
| Current assets [^] | 5,436 | 6,408 |
| Non-current liabilities | – | – |
| Current liabilities | (415) | (1,051) |
| Net assets | 5,405 | 6,210 |
| Group's interest in net assets of investee at beginning of the year | 2,484 | 3,106 |
| Share of total comprehensive income | 94 | 432 |
| Dividends from joint venture | (374) | (667) |
| Currency realignment | (42) | (387) |
| Carrying amount of interest in investee at end of the year | 2,162 | 2,484 |

Includes:

- depreciation of \$504,000 (2015: \$930,000)
- interest income of \$52,000 (2015: \$34,000)
- income tax expense of \$45,000 (2015: \$36,000)

[^] Includes cash and cash equivalents of \$4,455,000 (2015: \$4,969,000).

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

8 DEFERRED TAX ASSETS AND LIABILITIES

Movements in deferred tax assets and liabilities of the Group (prior to offsetting of balances) during the year are as follows:

| | Recognised in profit | | | Recognised in profit | | | At 31/12/2016 \$'000 |
|---------------------------------|--------------------------|--------------------------------|-----------------------------------|----------------------------|--------------------------------|-----------------------------------|----------------------------|
| | At 1/1/2015 \$'000 | or loss (Note 24) \$'000 | Exchange differences \$'000 | At 31/12/2015 \$'000 | or loss (Note 24) \$'000 | Exchange differences \$'000 | |
| Group | | | | | | | |
| Deferred tax assets | | | | | | | |
| Property, plant and equipment | 143 | (143) | - | - | - | - | - |
| Employee benefits | 29 | (4) | - | 25 | 1 | - | 26 |
| Others | 176 | 357 | 1 | 534 | (141) | (24) | 369 |
| Tax loss carry-forward | 2,192 | 1,133 | (348) | 2,977 | (542) | (42) | 2,393 |
| | 2,540 | 1,343 | (347) | 3,536 | (682) | (66) | 2,788 |
| Deferred tax liabilities | | | | | | | |
| Property, plant and equipment | (1,630) | (547) | 196 | (1,981) | 665 | 14 | (1,302) |
| | | | | | 2016 | 2015 | |
| | | | | | \$'000 | \$'000 | |
| Company | | | | | | | |
| Deferred tax assets | | | | | | | |
| Employee benefits | | | | | 26 | 25 | |
| Deferred tax liabilities | | | | | | | |
| Property, plant and equipment | | | | | (380) | (672) | |

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred taxes relate to the same tax authority. The amounts determined after appropriate offsetting are included in the statement of financial position as follows:

| | Group | | Company | |
|--------------------------|----------------|----------------|----------------|----------------|
| | 2016 \$'000 | 2015 \$'000 | 2016 \$'000 | 2015 \$'000 |
| Deferred tax assets | 2,100 | 2,464 | - | - |
| Deferred tax liabilities | 614 | 909 | 354 | 647 |

Based on the cash flows forecast prepared as described in note 4, deferred tax assets were recognised by certain subsidiaries to the extent that management considered it probable that future taxable profits would be available against which the unutilised tax losses carried forward can be utilised by the Group.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

8 DEFERRED TAX ASSETS AND LIABILITIES (CONT'D)

As at 31 December, deferred tax assets have not been recognised in respect of the following items because it is not probable that future taxable profits would be available against which the Group can utilise the benefits there from:

| | Group | |
|----------------------------------|----------------|----------------|
| | 2016 \$'000 | 2015 \$'000 |
| Unutilised capital allowances | 534 | 534 |
| Unutilised tax losses | 31,591 | 26,453 |
| Unutilised investment allowances | 2,978 | 2,978 |
| Temporary differences | (1,124) | (239) |
| | 33,979 | 29,726 |

Other than tax losses arising from China subsidiaries of \$22,720,000 (2015: \$18,437,000) which will expire between 2017 and 2021 (2015: 2016 and 2020), the remaining tax losses, capital allowances, export and reinvestment allowances and temporary differences do not expire under current tax legislation. Unutilised tax losses of \$2 million (2015: \$8 million) expired during the financial year.

Unrecognised temporary differences relating to investments in subsidiaries

At the reporting date, a deferred tax liability of \$247,000 (2015: \$232,000) for temporary differences of \$4,940,000 (2015: \$4,644,000) related to undistributed earnings of certain subsidiaries of the Group were not recognised as the Group has determined that the undistributed profits of its overseas subsidiaries will not be remitted to Singapore in the next 12 months, but be retained for working capital purposes.

9 INVENTORIES

| | Group | | Company | |
|------------------|----------------|----------------|----------------|----------------|
| | 2016 \$'000 | 2015 \$'000 | 2016 \$'000 | 2015 \$'000 |
| Raw materials | 7,923 | 7,009 | 954 | 1,218 |
| Work-in-progress | 750 | 527 | 50 | 35 |
| Finished goods | 7,295 | 7,481 | 954 | 1,264 |
| | 15,968 | 15,017 | 1,958 | 2,517 |

Movements in the allowance for stock obsolescence are as follows:

| | Group | | Company | |
|----------------------|----------------|----------------|----------------|----------------|
| | 2016 \$'000 | 2015 \$'000 | 2016 \$'000 | 2015 \$'000 |
| At 1 January | 1,185 | 899 | 211 | 61 |
| Allowance made | 513 | 432 | – | 150 |
| Allowance reversed | (295) | (74) | (66) | – |
| Allowance utilised | (260) | (19) | – | – |
| Currency realignment | (26) | (53) | – | – |
| At 31 December | 1,117 | 1,185 | 145 | 211 |

In 2016, the amount of inventories recognised as an expense for the Group amounted to \$166,130,000 (2015: \$186,992,000).

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

10 TRADE AND OTHER RECEIVABLES

| | Note | Group | | Company | |
|--|------|----------------|----------------|----------------|----------------|
| | | 2016 \$'000 | 2015 \$'000 | 2016 \$'000 | 2015 \$'000 |
| Trade receivables | | 54,381 | 62,275 | 7,245 | 8,831 |
| Allowance for impairment of doubtful receivables | | (4,820) | (8,025) | (6) | (6) |
| Net trade receivables | | 49,561 | 54,250 | 7,239 | 8,825 |
| Other receivables | | 757 | 1,030 | 95 | 198 |
| Allowance for impairment of doubtful other receivables | | (71) | (71) | (63) | (63) |
| Net other receivables | | 686 | 959 | 32 | 135 |
| Amounts due from subsidiaries | 11 | – | – | 5,153 | 3,977 |
| Deposits | | 849 | 1,445 | 322 | 458 |
| | | 51,096 | 56,654 | 12,746 | 13,395 |
| Prepayments | | 631 | 670 | 78 | 81 |
| Advances to suppliers | | 1,633 | 1,083 | 96 | 36 |
| Amounts due from customers for contract work | 12 | 3,648 | 2,884 | 670 | 499 |
| | | 57,008 | 61,291 | 13,590 | 14,011 |

The Group's and the Company's exposure to credit and currency risks, and impairment losses related to trade and other receivables is disclosed in note 27.

11 AMOUNTS DUE FROM SUBSIDIARIES

| | Note | Company | |
|-------------------------------|------|----------------|----------------|
| | | 2016 \$'000 | 2015 \$'000 |
| Amounts due from subsidiaries | | | |
| – trade | | 105 | 74 |
| – non-trade | | 5,048 | 3,903 |
| | 10 | 5,153 | 3,977 |

The non-trade amounts due from subsidiaries are unsecured, non-interest bearing and repayable on demand. There is no allowance for doubtful debts arising from these outstanding balances. The Company's exposure to credit risk is disclosed in note 27.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

12 AMOUNTS DUE FROM/(TO) CUSTOMERS FOR CONTRACT WORK

| | Note | Group | | Company | |
|---|------|----------------|----------------|----------------|----------------|
| | | 2016 \$'000 | 2015 \$'000 | 2016 \$'000 | 2015 \$'000 |
| Contract costs incurred to date | | 10,673 | 12,089 | 2,616 | 3,338 |
| Recognised profits less recognised losses to date | | 3,424 | 3,416 | 354 | 153 |
| | | 14,097 | 15,505 | 2,970 | 3,491 |
| Progress billings | | (10,968) | (13,540) | (2,322) | (3,068) |
| Amounts due from customers, net | | 3,129 | 1,965 | 648 | 423 |
| Gross amounts due from customers for contract work | 10 | 3,648 | 2,884 | 670 | 499 |
| Gross amounts due to customers for contract work | 18 | (519) | (919) | (22) | (76) |
| | | 3,129 | 1,965 | 648 | 423 |

13 CASH AND CASH EQUIVALENTS

| | Group | | Company | |
|---|----------------|----------------|----------------|----------------|
| | 2016 \$'000 | 2015 \$'000 | 2016 \$'000 | 2015 \$'000 |
| Cash at bank and in hand | 33,728 | 45,729 | 4,660 | 6,418 |
| Deposits with banks | 71,904 | 57,211 | 31,342 | 23,544 |
| Cash and cash equivalents | 105,632 | 102,940 | 36,002 | 29,962 |
| Deposits pledged | (3,030) | (3,001) | | |
| Cash and cash equivalents in the consolidated statement of cash flows | 102,602 | 99,939 | | |

The deposit pledged represents bank balance pledged for bank guarantee purposes in the normal course of business.

Deposits with financial institutions mature on varying periods within 12 months (2015: 12 months) from the financial year end. Effective interest rates range from 0.2% to 3.9% (2015: 0.3% to 4.16%) per annum.

Cash and bank balances totalling the equivalent of \$31,046,000 (2015: \$37,121,000) are held in a country which operates foreign exchange controls.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

14 SHORT TERM INVESTMENTS

The short term investments refer to funds deposited with quoted trust fund and money market funds. The investments are designated at fair value through profit or loss and is categorised as level 1 under the fair value hierarchy.

15 SHARE CAPITAL

| | Group and Company | |
|---|--------------------------|-------------|
| | 2016 | 2015 |
| | No. of shares | |
| | <hr/> | |
| Fully paid ordinary shares, with no par value: | | |
| On issue at 1 January and 31 December | 752,994,775 | 752,994,775 |
| | <hr/> | |

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All shares rank equally with regard to the Company's residual assets.

Capital reduction

In 2015, the Company undertook a capital reduction exercise involving:

- (i) a write off of accumulated losses of the Company amounting to \$15,253,773 as at 31 December 2014; and
- (ii) a cash distribution amounting to \$3,764,973 to return surplus capital to shareholders.

There is no change in the number of shares issued by the Company immediately after the capital reduction exercise.

Capital management

The Group's policy is to maintain adequate capital base to maintain investor, creditor and market confidence and to sustain future development of the business. Capital consists of share capital and reserves of the Group.

Management monitors capital and externally imposed capital requirements based on the following bases (for the Group and the Company) and will report to the Board on any exceptions noted:

- Total equity attributable to equity holders of the Company, excluding revaluation reserve and foreign currency translation reserve ("net equity"); and
- Gearing ratio.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

15 SHARE CAPITAL (CONT'D)

Capital management (cont'd)

Net equity is calculated as the sum of share capital, capital reserve, statutory reserve, share option reserve and retained earnings. Gearing ratio is calculated as total liabilities (including contingent liabilities) divided by net equity.

| | Group | | Company | |
|---------------|----------------|----------------|----------------|----------------|
| | 2016 \$'000 | 2015 \$'000 | 2016 \$'000 | 2015 \$'000 |
| Net equity | 186,009 | 187,183 | 117,459 | 112,186 |
| Gearing ratio | 26.0% | 27.3% | 5.7% | 10.0% |

The Group and the Company have complied with the externally imposed capital requirements for the financial years ended 31 December 2016 and 2015.

In addition, as disclosed in note 16, subsidiaries in People's Republic of China (PRC) are required by the laws and regulations of the PRC to contribute to and to maintain a non-distributable statutory reserve fund whose utilisation is subject to approval by relevant PRC authorities. This externally imposed capital requirement has been complied with by the PRC subsidiaries for the financial years ended 31 December 2016 and 31 December 2015.

The Board of Directors monitors the level of dividends to ordinary shareholders. There were no changes in the Group's approach to capital management during the year.

16 RESERVES

| | Group | | Company | |
|--------------------------------------|----------------|----------------|----------------|----------------|
| | 2016 \$'000 | 2015 \$'000 | 2016 \$'000 | 2015 \$'000 |
| Capital reserve | 140 | 140 | – | – |
| Statutory reserve | 7,616 | 6,561 | – | – |
| Revaluation reserve | 789 | 789 | 789 | 789 |
| Foreign currency translation reserve | (13,261) | (9,905) | – | – |
| Retained earnings | 76,095 | 78,324 | 15,301 | 10,028 |
| | 71,379 | 75,909 | 16,090 | 10,817 |

The capital reserve comprises negative goodwill arising from acquisition of remaining interest in a subsidiary from non-controlling interests written off against shareholder's equity.

In accordance with the Foreign Enterprise Law applicable to the subsidiaries in the PRC, wholly-owned subsidiaries are required to make appropriation to statutory reserve fund (SRF). At least 10% of the statutory after tax profits as determined in accordance with the applicable PRC accounting standards and regulations must be allocated to the SRF until the cumulative total of the SRF reaches 50% of the subsidiaries' registered capital. Subject to approval from the relevant PRC authorities, the SRF may be used to offset any accumulated losses or increase the registered capital of the subsidiaries. The SRF is not available for dividend distribution to shareholders.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

16 RESERVES (CONT'D)

The revaluation reserve represents increase in the fair value of certain properties that were subject to one-off revaluation exercise conducted in 1994. When the property is sold, the related amount in the revaluation reserve is transferred to retained earnings.

The foreign currency translation reserve comprises foreign exchange differences arising from the translation of the financial statements of foreign operations whose functional currencies are different from the Group's presentation currency.

17 SHARE-BASED PAYMENT ARRANGEMENT/SHARE OPTION RESERVE

The Fu Yu Employees Share Option Scheme (the Scheme) of the Company was approved and adopted by its members at an Extraordinary General Meeting on 29 April 2008. The Scheme is administered by a committee comprising all executive directors.

The share option reserve comprises the cumulative value of services received from directors and employees for the issue of the share options. In 2015, the amount is transferred to retained earnings upon expiry of the share option scheme.

18 TRADE AND OTHER PAYABLES

| | Note | Group | | Company | |
|---|------|----------------|----------------|----------------|----------------|
| | | 2016 \$'000 | 2015 \$'000 | 2016 \$'000 | 2015 \$'000 |
| Trade payables | | 22,888 | 22,530 | 2,283 | 3,219 |
| Accrued expenses | | 9,461 | 8,131 | 2,864 | 2,911 |
| Amounts payable for purchase of property, plant and equipment | | 360 | 760 | 22 | 82 |
| Other payables | | 10,290 | 11,527 | 416 | 1,220 |
| Amounts due to subsidiaries: | | | | | |
| – trade | | – | – | 363 | 1,585 |
| – non-trade | | – | – | 2 | 1,063 |
| Deposits | | 1,747 | 1,653 | 206 | 314 |
| | | 44,746 | 44,601 | 6,156 | 10,394 |
| Advance billings | | 111 | 1,908 | 111 | 60 |
| Amounts due to customers for contract work | 12 | 519 | 919 | 22 | 76 |
| | | 45,376 | 47,428 | 6,289 | 10,530 |
| Non-current | | – | 112 | – | 112 |
| Current | | 45,376 | 47,316 | 6,289 | 10,418 |
| | | 45,376 | 47,428 | 6,289 | 10,530 |

The non-trade amounts due to subsidiaries of the Company are unsecured, interest-free and repayable on demand.

Included in other payables are payables arising from non-inventorised purchases.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

19 REVENUE

| | Group | |
|--------------------------------|----------------|----------------|
| | 2016 \$'000 | 2015 \$'000 |
| Sale of goods | 178,450 | 197,991 |
| Revenue from tooling contracts | 20,111 | 24,474 |
| | 198,561 | 222,465 |

20 OTHER INCOME

| | Group | |
|---|----------------|----------------|
| | 2016 \$'000 | 2015 \$'000 |
| Interest income | 1,883 | 1,805 |
| Rental income | 4,370 | 4,970 |
| Gain on disposal of property, plant and equipment | 340 | 483 |
| Sale of scrap and raw materials | 706 | 980 |
| Gain on liquidation of a subsidiary | – | 393 |
| Government grants | 598 | 135 |
| Others | 768 | 862 |
| | 8,665 | 9,628 |

Included in rental income is sublease payments of \$2,865,000 (2015: \$2,926,000).

The government grant compensates a subsidiary of the Group for expenses incurred and is recognised directly in profit or loss. The grant was conditional that the subsidiary operates in specific industries designated by local government.

21 OTHER OPERATING INCOME, NET

| | Group | |
|---|----------------|----------------|
| | 2016 \$'000 | 2015 \$'000 |
| Foreign exchange gain, net | 1,659 | 2,710 |
| Other operating income | 1,659 | 2,710 |
| Property, plant and equipment written off | (47) | (157) |
| Allowance made for doubtful receivables | (8) | (64) |
| Bad debts written off | – | (86) |
| Other operating expense | (55) | (307) |
| Other operating income, net | 1,604 | 2,403 |

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

22 FINANCE COSTS

| | Group | |
|------------------|----------------|----------------|
| | 2016 \$'000 | 2015 \$'000 |
| Interest expense | | |
| – bank loans | – | 11 |
| – finance leases | – | * |
| | – | 11 |

* less than \$1,000

23 PROFIT BEFORE INCOME TAX

The following items have been included in arriving at profit before income tax:

| | Note | Group | |
|---|------|----------------|----------------|
| | | 2016 \$'000 | 2015 \$'000 |
| Directors of the Company | | | |
| – fees | | 331 | 334 |
| – salaries, bonuses and other costs | | 3,199 | 3,073 |
| – contributions to defined contribution plans | | 66 | 53 |
| Directors of subsidiaries | | | |
| – fees | | 92 | 83 |
| – salaries, bonuses and other costs | | 12 | 14 |
| Audit fees paid or payable to | | | |
| – auditors of the Company | | 148 | 148 |
| – overseas affiliates of the auditors of the Company | | 158 | 173 |
| – other auditors | | 103 | 128 |
| Non-audit fees paid or payable to | | | |
| – auditors of the Company | | – | 26 |
| – other auditors | | 22 | 14 |
| Depreciation of property, plant and equipment and investment property | 4, 5 | 9,791 | 13,769 |
| Staff costs, excluding directors of the Company and subsidiaries | | | |
| – salaries, bonuses and other costs | | 45,628 | 49,178 |
| – contributions to defined contribution plans | | 6,297 | 5,917 |
| Operating lease expenses | | 5,107 | 5,460 |
| Operating expenses incurred in relation to investment property | | 223 | 239 |

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

24 TAX EXPENSE

| | Group | |
|---|---------------|---------------|
| | 2016 | 2015 |
| | \$'000 | \$'000 |
| Current tax expense | | |
| Current year | 2,480 | 2,474 |
| Group tax relief | (350) | (395) |
| Withholding taxes | 732 | 496 |
| Under/(Over) provision in prior years | 170 | (24) |
| | <u>3,032</u> | <u>2,551</u> |
| Deferred tax expense/(credit) | | |
| Movements in temporary differences | 1,084 | 1,699 |
| Reduction in tax rate | – | 16 |
| Recognition of tax effect of previously unrecognised tax losses | (554) | (2,471) |
| Overprovision in prior years | (513) | (40) |
| | <u>17</u> | <u>(796)</u> |
| Tax expense | <u>3,049</u> | <u>1,755</u> |
| Reconciliation of effective tax rate | | |
| Profit before income tax | 14,911 | 18,437 |
| Tax calculated using Singapore tax rate of 17% (2015: 17%) | 2,535 | 3,134 |
| Effect of different tax rates in foreign jurisdictions | (284) | 93 |
| Reduction in tax rate | – | 16 |
| Tax exempt income | (687) | (666) |
| Non-deductible expenses | 531 | 1,337 |
| Tax incentives | (403) | (387) |
| Recognition of tax effect of previously unrecognised tax losses | (554) | (2,471) |
| Utilisation of capital allowances, reinvestment allowances and tax losses previously not recognised | (186) | (333) |
| Overprovision in prior years | (343) | (64) |
| Current year tax losses and capital allowances for which no deferred tax asset was recognised | 2,098 | 1,092 |
| Withholding taxes | 732 | 496 |
| Group tax relief | (350) | (395) |
| Others | (40) | (97) |
| | <u>3,049</u> | <u>1,755</u> |

The Group has exposure to income taxes in numerous jurisdictions. Significant judgement is involved in determining the group-wide provision for income taxes. There are certain transactions and computations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for expected tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recognised, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

24 TAX EXPENSE (CONT'D)

Income tax for the subsidiaries in Malaysia is calculated at the statutory rate of 24% (2015: 25%) during the year.

One of the subsidiaries in China was accredited as a “High and New Technology Enterprise” in 2016 and was entitled to a preferential tax rate of 15% for a period of three years from 2016 to 2018 which is subject to the subsidiary’s compliance with the conditions imposed by the tax authority. Another subsidiary operates in western China of which the industry it operates in enjoys preferential tax rate of 15%.

25 EARNINGS PER SHARE

| | Group | |
|---|-------------------------|-------------------------|
| | 2016 | 2015 |
| | \$'000 | \$'000 |
| Basic and diluted earnings per share is based on profit attributable to ordinary shareholders | 10,539 | 14,070 |
| | Number of shares | Number of shares |
| | 2016 | 2015 |
| Weighted average number of ordinary shares (basic and diluted) | 752,994,775 | 752,994,775 |
| Basic and diluted earnings per share (cents) | 1.40 | 1.87 |

Diluted earnings per share is the same as basic earnings per share as there are no dilutive instruments.

26 OPERATING SEGMENTS

The Group has three reportable segments which are geographical segments and are based on the location of assets, namely Singapore, Malaysia and China. These geographical segments are managed separately because they require different marketing strategies and bear different financial and business risks. The location of the Group’s customers is not significantly different from the location of the Group’s assets. In presenting information on the basis of geographical segments, segment revenue and segment assets are based on the geographical location of the assets.

Segment results and assets include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Performance is measured based on profit before income tax, depreciation of property, plant and equipment and investment property, (impairment loss)/reversal of impairment loss on property, plant and equipment, finance cost and net foreign exchange gain as included in internal management reports that are reviewed by the Group’s chief operating decision maker. Such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within the Group’s industry. Inter-segment pricing is based on terms agreed by the counterparties.

Concentration of revenue

Revenue of approximately \$49,414,000 (2015: \$53,169,000) relates to two (2015: two) external customers with revenue in excess of 10% of Group’s revenue. This revenue relates to Singapore, Malaysia and China segments.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

26 OPERATING SEGMENTS (CONT'D)

Geographical segments

| | Singapore | | China | | Malaysia | | Total operations before adjustment | | Group adjustment and eliminations | | Consolidated | |
|---|-----------|---------|---------|---------|----------|---------|------------------------------------|----------|-----------------------------------|----------|--------------|----------|
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| Revenue and expenses | | | | | | | | | | | | |
| Total external revenue | 39,079 | 44,999 | 121,899 | 136,686 | 37,583 | 40,780 | 198,561 | 222,465 | - | - | 198,561 | 222,465 |
| Inter-segment revenue | 403 | 100 | - | 3 | 353 | 1,454 | 756 | 1,557 | (756) | (1,557) | - | - |
| Segment profit before income tax* | 19,962 | 15,443 | 12,928 | 12,806 | 6,947 | 8,487 | 39,837 | 36,736 | (16,888) | (7,661) | 22,949 | 29,075 |
| Depreciation of property, plant and equipment and investment property | (2,252) | (2,282) | (5,912) | (9,767) | (1,728) | (1,838) | (9,892) | (13,887) | 101 | 118 | (9,791) | (13,769) |
| Finance cost | - | - | - | (11) | - | - | - | (11) | - | - | - | (11) |
| Foreign exchange gain (net) | 1,069 | 3,304 | (495) | 810 | 399 | 1,438 | 973 | 5,552 | 686 | (2,842) | 1,659 | 2,710 |
| Share of profit of joint venture (net of tax) | 18,779 | 16,465 | 6,521 | 3,838 | 5,618 | 8,087 | 30,918 | 28,390 | (16,101) | (10,385) | 14,817 | 18,005 |
| Profit before income tax | - | - | - | - | 94 | 432 | 94 | 432 | - | - | 94 | 432 |
| Tax expense | | | | | | | | | | | 14,911 | 18,437 |
| Net profit for the year | | | | | | | | | | | (3,049) | (1,755) |
| Other segment information | | | | | | | | | | | 11,862 | 16,682 |
| Non-current assets | 70,304 | 75,166 | 20,227 | 23,594 | 25,370 | 26,063 | 115,901 | 124,823 | (57,821) | (61,355) | 58,080 | 63,468 |
| Unallocated assets | | | | | | | | | | | 2,100 | 2,464 |
| Total non-current assets | | | | | | | | | | | 60,180 | 65,932 |
| Capital expenditure | 1,815 | 828 | 3,836 | 1,688 | 948 | 3,690 | 6,599 | 6,206 | - | - | 6,599 | 6,206 |
| Interest income | 241 | 353 | 494 | 525 | 1,148 | 1,130 | 1,883 | 2,008 | - | (203) | 1,883 | 1,805 |
| Segment reporting assets | 126,568 | 131,943 | 103,902 | 111,942 | 73,686 | 76,017 | 304,156 | 319,902 | (64,790) | (73,549) | 239,366 | 246,353 |
| Unallocated assets | | | | | | | | | | | 2,182 | 2,534 |
| Total assets | | | | | | | | | | | 241,548 | 248,887 |
| Segment reporting liabilities | 6,912 | 9,411 | 37,201 | 40,165 | 7,375 | 9,249 | 51,488 | 58,825 | (6,112) | (11,397) | 45,376 | 47,428 |
| Unallocated liabilities | | | | | | | | | | | 2,989 | 3,715 |
| Total liabilities | | | | | | | | | | | 48,365 | 51,143 |

* After excluding share of results of joint venture, finance cost, foreign exchange gain (net) and depreciation.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

27 FINANCIAL RISK MANAGEMENT

The Group has a system of controls in place to create an acceptable balance between the cost of risks occurring and the cost of managing the risks. Management continually monitors the Group's risk management process to ensure that an appropriate balance between risk and control is achieved.

Credit risk

The Group has a credit policy in place which establishes credit limits for customers and monitors their balances on an ongoing basis. Cash and fixed deposits are placed with banks and financial institutions which are regulated.

The maximum exposure to credit risk from trade and other receivables* at the reporting date by geographical areas is as follows:

| | Group | | Company | |
|---------------|----------------|----------------|----------------|----------------|
| | 2016 \$'000 | 2015 \$'000 | 2016 \$'000 | 2015 \$'000 |
| Singapore | 8,401 | 8,426 | 8,789 | 7,910 |
| China | 28,727 | 30,572 | 965 | 1,178 |
| Malaysia | 7,364 | 10,228 | 387 | 795 |
| United States | 2,415 | 2,497 | 228 | 128 |
| Hong Kong | 556 | 292 | 1,856 | 1,625 |
| Others | 3,633 | 4,639 | 521 | 1,759 |
| | 51,096 | 56,654 | 12,746 | 13,395 |

* Excludes prepayments, advances to suppliers and amounts due from customers for contract work.

At the reporting date, there is a concentration of credit risk relating to two (2015: two) major customers with outstanding receivable balance of approximately \$14,778,000 (2015: \$9,821,000) and \$3,732,000 (2015: \$3,565,000) at the Group and Company respectively.

The maximum exposure to credit risk is represented by the carrying amount of each financial assets in the statement of financial position.

The ageing analysis of trade and other receivables* is as follows:

| | 2016 | | 2015 | |
|----------------------------|-----------------|------------------------------|-----------------|------------------------------|
| | Gross \$'000 | Impairment loss \$'000 | Gross \$'000 | Impairment loss \$'000 |
| Group | | | | |
| Not past due | 37,379 | – | 39,317 | – |
| Past due 1 to 30 days | 9,985 | – | 12,202 | – |
| Past due 31 to 90 days | 2,564 | – | 3,119 | – |
| Past due more than 90 days | 5,210 | 4,891 | 8,667 | 8,096 |
| No credit terms | 849 | – | 1,445 | – |
| | 55,987 | 4,891 | 64,750 | 8,096 |

* Excludes prepayments, advances to suppliers and amounts due from customers for contract work.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

27 FINANCIAL RISK MANAGEMENT (CONT'D)

Credit risk (cont'd)

| | 2016 | | 2015 | |
|----------------------------|-----------------|------------------------------|-----------------|------------------------------|
| | Gross \$'000 | Impairment loss \$'000 | Gross \$'000 | Impairment loss \$'000 |
| Company | | | | |
| Not past due | 4,942 | – | 5,838 | – |
| Past due 1 to 30 days | 2,468 | – | 3,071 | – |
| Past due 31 to 90 days | 667 | – | 882 | – |
| Past due more than 90 days | 4,416 | 69 | 3,215 | 69 |
| No credit terms | 322 | – | 458 | – |
| | 12,815 | 69 | 13,464 | 69 |

Movements in the allowance for impairment loss in respect of trade receivables during the year are as follows:

| | Group | | Company | |
|----------------------|----------------|----------------|----------------|----------------|
| | 2016 \$'000 | 2015 \$'000 | 2016 \$'000 | 2015 \$'000 |
| At 1 January | 8,025 | 7,893 | 6 | 5 |
| Allowance made | 8 | 9 | – | 1 |
| Allowance utilised | (2,860) | (30) | – | – |
| Currency realignment | (353) | 153 | – | – |
| At 31 December | 4,820 | 8,025 | 6 | 6 |

Movements in the allowance for impairment loss in respect of other receivables during the year are as follows:

| | Group | | Company | |
|----------------|----------------|----------------|----------------|----------------|
| | 2016 \$'000 | 2015 \$'000 | 2016 \$'000 | 2015 \$'000 |
| At 1 January | 71 | 16 | 63 | 8 |
| Allowance made | – | 55 | – | 55 |
| At 31 December | 71 | 71 | 63 | 63 |

The Group follows the guidance of FRS 39 *Financial Instruments: Recognition and Measurement* in determining when a financial asset is impaired. This determination requires significant judgement. The Group evaluates among other factors, the financial health, repayment history and near-term business outlook of the financial assets, including factors such as industry and sector performance. The Group believes that no additional impairment allowance, other than those specially identified, is necessary in respect of trade and other receivables. These receivables are mainly arising from customers that have a good payment record with the Group.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

27 FINANCIAL RISK MANAGEMENT (CONT'D)

Liquidity risk

The Group monitors its liquidity risk and maintains a level of cash and cash equivalents deemed adequate by management to finance the Group's operations and to mitigate the effects of fluctuations in cash flows.

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements.

| | Carrying amount \$'000 | Contractual cash flows \$'000 | Less than 1 year \$'000 | Between 1 and 5 years \$'000 |
|---|------------------------------|-------------------------------------|-------------------------------|------------------------------------|
| Non-derivative financial liabilities | | | | |
| Group | | | | |
| 2016 | | | | |
| Trade and other payables [#] | 44,746 | 44,746 | 44,746 | – |
| 2015 | | | | |
| Trade and other payables [#] | 44,601 | 44,601 | 44,489 | 112 |
| Company | | | | |
| 2016 | | | | |
| Trade and other payables [#] | 6,156 | 6,156 | 6,156 | – |
| 2015 | | | | |
| Trade and other payables [#] | 10,394 | 10,394 | 10,282 | 112 |

[#] Excludes advance billings and amounts due to customers for contract work.

It is not expected that the cash flows included in the maturity analysis would occur significantly earlier, or at significantly different amounts.

Market risk

Market risk is the risk that changes in market prices, such as interest rates and foreign exchange rates will affect the Group's income or the value of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

27 FINANCIAL RISK MANAGEMENT (CONT'D)

Interest rate risk

At the reporting date, the interest rate profiles of the Group's interest-bearing financial instruments were as follows:

| | Group | | Company | |
|-------------------------------|----------------|----------------|----------------|----------------|
| | 2016 \$'000 | 2015 \$'000 | 2016 \$'000 | 2015 \$'000 |
| Fixed rate instruments | | | | |
| Financial assets | 71,904 | 57,211 | 31,342 | 23,544 |

The Group's interest-bearing financial assets comprise fixed deposits placed with banks. The deposits were rolled over during the financial year at market interest rates upon maturity.

Sensitivity analysis

An increase of 25 (2015: 100) basis points in interest rates at the reporting date would have increased profit for the year by \$180,000 (2015: \$572,000) and \$78,000 (2015: \$235,000) for the Group and the Company respectively. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

A decrease of 25 (2015: 100) basis points in interest rates at the reporting date would have had the equal but opposite effect on the amounts shown above, on the basis that all other variables remain constant.

Foreign currency risk

The Group is exposed to foreign currency risk on sales, purchases and cash and cash equivalents that are denominated in currencies other than the respective functional currencies of the Group entities. The currency giving rise to this risk is primarily the United States (US) dollar.

The Group's and Company's exposures to foreign currency risk (before elimination of inter-company balances) are as follows:

| | Group | | Company | |
|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| | 2016 US dollar \$'000 | 2015 US dollar \$'000 | 2016 US dollar \$'000 | 2015 US dollar \$'000 |
| Trade and other receivables | 168,955 | 128,335 | 7,522 | 9,327 |
| Cash and cash equivalents | 36,044 | 42,319 | 17,307 | 27,002 |
| Trade and other payables | (141,550) | (95,273) | (1,615) | (4,591) |
| | 63,449 | 75,381 | 23,214 | 31,738 |

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

27 FINANCIAL RISK MANAGEMENT (CONT'D)

Foreign currency risk (cont'd)

Sensitivity analysis

A one percentage point strengthening of the Singapore dollar against the US dollar at the reporting date would decrease the Group's profit before income tax by approximately \$634,000 (2015: \$754,000) and decrease the Company's profit before income tax by approximately \$232,000 (2015: \$317,000). This analysis assumes that all other variables in particular interest rates, remain constant.

A one percentage point weakening of the Singapore dollar against the US dollar at the reporting date would have had the equal but opposite effect on the amounts shown above, on the basis that all other variables remain constant. The analysis is performed on the same basis for 2015.

Accounting classification and fair values

The carrying amounts of financial assets and liabilities (including trade and other receivables, cash and cash equivalents, and trade and other payables) are assumed to approximate their fair values because of the short period to maturity or re-pricing.

Financial liabilities are mainly classified as current liabilities and the impact of discounting arising from the non-current liabilities is not expected to be material.

| | Designated at fair value through profit or loss \$'000 | Loans and receivables \$'000 | Other financial liabilities \$'000 | Total carrying amount \$'000 |
|--|---|---|---|---|
| Group | | | | |
| 31 December 2016 | | | | |
| Trade and other receivables ⁺ | – | 51,096 | – | 51,096 |
| Cash and cash equivalents | – | 105,632 | – | 105,632 |
| Short term investments | 2,678 | – | – | 2,678 |
| Trade and other payables [#] | – | – | (44,746) | (44,746) |
| | 2,678 | 156,728 | (44,746) | 114,660 |
| 31 December 2015 | | | | |
| Trade and other receivables ⁺ | – | 56,654 | – | 56,654 |
| Cash and cash equivalents | – | 102,940 | – | 102,940 |
| Short term investments | 3,637 | – | – | 3,637 |
| Trade and other payables [#] | – | – | (44,601) | (44,601) |
| | 3,637 | 159,594 | (44,601) | 118,630 |

+ Excludes prepayments, advances to suppliers and amounts due from customers for contract work.

Excludes advance billings and amount due to customers for contract work.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

27 FINANCIAL RISK MANAGEMENT (CONT'D)

Accounting classification and fair values (cont'd)

| | Loans and receivables \$'000 | Other financial liabilities \$'000 | Total carrying amount \$'000 |
|--|------------------------------------|---|---------------------------------------|
| Company | | | |
| 31 December 2016 | | | |
| Trade and other receivables ⁺ | 12,746 | – | 12,746 |
| Cash and cash equivalents | 36,002 | – | 36,002 |
| Trade and other payables [#] | – | (6,156) | (6,156) |
| | 48,748 | (6,156) | 42,592 |
| 31 December 2015 | | | |
| Trade and other receivables ⁺ | 13,395 | – | 13,395 |
| Cash and cash equivalents | 29,962 | – | 29,962 |
| Trade and other payables [#] | – | (10,394) | (10,394) |
| | 43,357 | (10,394) | 32,963 |

+ Excludes prepayments, advances to suppliers and amounts due from customers for contract work.

Excludes advance billings and amounts due to customers for contract work.

28 COMMITMENTS

Capital expenditure commitments

| | Group | | Company | |
|--|----------------|----------------|----------------|----------------|
| | 2016 \$'000 | 2015 \$'000 | 2016 \$'000 | 2015 \$'000 |
| Capital expenditure contracted for as at the reporting date but not recognised in the financial statements | 825 | 1,467 | – | 726 |

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

28 COMMITMENTS (CONT'D)

Operating lease commitments

Leases as lessee

The Group and the Company lease certain properties and land under lease arrangements that are non-cancellable within one year. Other leases, which include the renewal options, expire at various dates till 2044 and contain provisions for rental adjustments and restrictions to further sub-lease certain properties.

One of the leased properties has been sublet by the Group to a third party. Sublease payments of \$2,815,000 (2015: \$2,830,000) are expected to be received within 1 year. The subsequent payments of \$6,568,000 (2015: \$9,581,000) will be received within 5 years.

At the reporting date, the Group and the Company have commitments for future minimum lease payments under non-cancellable operating leases as follows:

| | Group | | Company | |
|---------------------------------|----------------|----------------|----------------|----------------|
| | 2016 \$'000 | 2015 \$'000 | 2016 \$'000 | 2015 \$'000 |
| Payable: | | | | |
| Within 1 year | 5,023 | 5,805 | 856 | 1,646 |
| After 1 year but within 5 years | 14,395 | 15,339 | 2,765 | 3,166 |
| After 5 years | 4,496 | 5,446 | 4,496 | 5,446 |
| | <u>23,914</u> | <u>26,590</u> | <u>8,117</u> | <u>10,258</u> |

Leases as lessor

At the reporting date, the Group entered into cancellable and non-cancellable commercial property leases to lease out its surplus space. The cancellable commercial property leases can be cancelled by way of the lessees giving notice in advance to the Group and vice versa. The lease payments under non-cancellable leases are as follows:

| | Group | | Company | |
|---------------------------------|----------------|----------------|----------------|----------------|
| | 2016 \$'000 | 2015 \$'000 | 2016 \$'000 | 2015 \$'000 |
| Receivable: | | | | |
| Within 1 year | 1,297 | 1,417 | 589 | 941 |
| After 1 year but within 5 years | 1,568 | 299 | 28 | – |
| | <u>2,865</u> | <u>1,716</u> | <u>617</u> | <u>941</u> |

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

29 RELATED PARTIES

Key management personnel compensation

Key management personnel of the Group are those persons having the authority and responsibility for planning, directing and controlling the activities of the entity. The directors and key executives are considered as key management personnel of the Group and Company.

Key management personnel compensation comprises:

| | Group | |
|---|---------------|---------------|
| | 2016 | 2015 |
| | \$'000 | \$'000 |
| Directors' fees | 331 | 334 |
| Short term employee benefits | 3,912 | 3,904 |
| Contributions to defined contribution plans | 116 | 85 |
| | <u>4,359</u> | <u>4,323</u> |
| Comprise amounts paid/payable to: | | |
| – directors of the Company | 3,596 | 3,460 |
| – key executives | 763 | 863 |
| | <u>4,359</u> | <u>4,323</u> |

Other related party transactions

Other than disclosed elsewhere in the financial statements, transactions with related parties are as follows:

| | Group | |
|------------------------------------|---------------|---------------|
| | 2016 | 2015 |
| | \$'000 | \$'000 |
| Rental income from a joint venture | 430 | 453 |
| Dividend from a joint venture | 374 | 667 |

30 DIVIDENDS

The following exempt (one-tier) dividends were declared and paid by the Group and Company:

| | Group and Company | |
|--|--------------------------|---------------|
| | 2016 | 2015 |
| | \$'000 | \$'000 |
| Paid by the Company to owners of the Company | | |
| An interim dividend of 0.25 cents (2015: 0.25 cents) per qualifying ordinary share | 1,882 | 1,883 |
| Second interim dividend of 0.25 cents (2015: 0.25 cents) per qualifying ordinary share | 1,883 | 1,882 |
| Final dividend of 1.0 cents (2015:nil) per qualifying ordinary share | 7,530 | – |
| | <u>11,295</u> | <u>3,765</u> |

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

30 DIVIDENDS (CONT'D)

| | Group | |
|--|--------------|------------|
| | 2016 | 2015 |
| | \$'000 | \$'000 |
| Paid by a subsidiary to NCI | | |
| An interim dividend of RM0.5 cents (2015: RM0.5 cents) per qualifying ordinary share | 171 | 174 |
| Second interim dividend of RM0.5 cents (2015: RM0.5 cents) per qualifying ordinary share | 170 | 174 |
| Final dividend of RM3.0 cents (2015:nil) per qualifying ordinary share | 1,022 | – |
| | <u>1,363</u> | <u>348</u> |

After the reporting date, the following exempt (one-tier) dividends were proposed by the directors. These exempt (one-tier) dividends have not been provided for.

| | Group and Company | |
|---|-------------------|--------|
| | 2016 | 2015 |
| | \$'000 | \$'000 |
| Proposed by the Company to owners of the Company | | |
| A final dividend of 1.0 cents (2015: 1.0 cents) per qualifying ordinary share | 7,530 | 7,530 |

| | Group | |
|---|--------|--------|
| | 2016 | 2015 |
| | \$'000 | \$'000 |
| Proposed by a subsidiary to NCI | | |
| A final dividend of RM1.5 cents (2015: RM3.0 cents) per qualifying ordinary share | 512 | 1,044 |

31 ACQUISITION OF NON-CONTROLLING INTERESTS

In May 2016, the Company acquired an additional 20% interest in NanoTechnology Manufacturing Pte Ltd (NanoTechnology) for cash consideration of \$1, increasing its ownership interests from 80% to 100%. The carrying amount of NanoTechnology's net liabilities in the Group's financial statements on the date of the acquisition was \$8,214,000. The Group recognised a decrease in both NCI and retained earnings of \$418,000, resulting in a net decrease in equity attributable to owners of the Group of \$418,000.

| | Group |
|--|--------------|
| | 2016 |
| | \$'000 |
| Carrying amount of NCI acquired | (418) |
| Consideration paid to NCI | * |
| Decrease in equity attributable to owners of the Group | <u>(418)</u> |

* less than \$1,000

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

32 SUBSEQUENT EVENTS

On 28 February 2017, the Company amalgamated with its subsidiaries, NanoTechnology Manufacturing Pte Ltd and SolidMicron Technologies Pte Ltd pursuant to Section 215D of the Companies Act (Chapter 50). Following the amalgamation, all the business and undertakings, including all rights and obligations of these two subsidiaries were transferred to the Company, being the surviving amalgamated company.

STATISTICS OF SHAREHOLDINGS

As at 24 March 2017

| | | |
|-----------------------------|---|-----------------------------|
| Class of equity securities | : | Ordinary shares |
| Number of equity securities | : | 752,994,775 ordinary shares |
| Voting rights | : | one vote per share |

The Company does not hold any treasury shares.

DISTRIBUTION OF SHAREHOLDINGS

| SIZE OF SHAREHOLDINGS | NO. OF SHAREHOLDERS | | NO. OF SHARES | |
|-----------------------|---------------------|---------------|--------------------|---------------|
| | | % | | % |
| 1 – 99 | 48 | 0.79 | 1,694 | 0.00 |
| 100 – 1,000 | 328 | 5.38 | 162,318 | 0.02 |
| 1,001 – 10,000 | 3,045 | 49.98 | 14,966,850 | 1.99 |
| 10,001 – 1,000,000 | 2,641 | 43.34 | 151,335,261 | 20.10 |
| 1,000,001 AND ABOVE | 31 | 0.51 | 586,528,652 | 77.89 |
| TOTAL | 6,093 | 100.00 | 752,994,775 | 100.00 |

SUBSTANTIAL SHAREHOLDERS AS AT 24 MARCH 2017

(As recorded in the Register of Substantial Shareholders)

| | Direct Interest | % | Deemed Interest | % |
|----------------------------|-----------------|-------|-----------------|-------|
| Ng Hock Ching ¹ | 829,000 | 0.11 | 96,264,575 | 12.78 |
| Ho Nee Kit | 96,999,225 | 12.88 | – | – |
| Tam Wai ² | 96,715,475 | 12.84 | 300,000 | 0.04 |
| Ching Heng Yang | 88,965,475 | 11.81 | – | – |

Note:

- Mr Ng Hock Ching is deemed to be interested in the 96,264,575 shares held in the name of (a) Citibank Nominees Singapore Pte Ltd: 24,036,000; (b) DBS Nominees Pte Ltd: 28,958,000; and (c) Philip Securities Pte Ltd: 43,270,575.
- Mr Tam Wai is deemed to be interested in the 300,000 shares held in the name of his spouse.

STATISTICS OF SHAREHOLDINGS

As at 24 March 2017

TWENTY LARGEST SHAREHOLDERS

| NO. | NAME | NO. OF SHARES | % |
|-----|---|--------------------|--------------|
| 1 | HO NEE KIT | 96,999,225 | 12.88 |
| 2 | TAM WAI | 96,715,475 | 12.84 |
| 3 | CHING HENG YANG | 88,965,475 | 11.81 |
| 4 | PHILLIP SECURITIES PTE LTD | 73,050,325 | 9.70 |
| 5 | DBS NOMINEES (PRIVATE) LIMITED | 65,278,650 | 8.67 |
| 6 | CITIBANK NOMINEES SINGAPORE PTE LTD | 43,080,700 | 5.72 |
| 7 | RAFFLES NOMINEES (PTE) LIMITED | 17,552,600 | 2.33 |
| 8 | OCBC SECURITIES PRIVATE LIMITED | 15,297,589 | 2.03 |
| 9 | UNITED OVERSEAS BANK NOMINEES (PRIVATE) LIMITED | 15,127,981 | 2.01 |
| 10 | UOB KAY HIAN PRIVATE LIMITED | 8,503,000 | 1.13 |
| 11 | DB NOMINEES (SINGAPORE) PTE LTD | 8,371,800 | 1.11 |
| 12 | HEW LIEN LEE | 8,100,000 | 1.08 |
| 13 | HONG LEONG FINANCE NOMINEES PTE LTD | 7,380,500 | 0.98 |
| 14 | MAYBANK KIM ENG SECURITIES PTE. LTD. | 5,565,810 | 0.74 |
| 15 | LOH TEE YANG | 4,888,800 | 0.65 |
| 16 | HO KANG PENG | 3,630,000 | 0.48 |
| 17 | DBS VICKERS SECURITIES (SINGAPORE) PTE LTD | 3,443,250 | 0.46 |
| 18 | OCBC NOMINEES SINGAPORE PRIVATE LIMITED | 3,051,710 | 0.41 |
| 19 | DBSN SERVICES PTE. LTD. | 2,964,500 | 0.39 |
| 20 | BNP PARIBAS NOMINEES SINGAPORE PTE LTD | 2,773,000 | 0.37 |
| | TOTAL | 570,740,390 | 75.79 |

As at 24 March 2017, 47.98% of the issued share capital of the Company were held in the hands of the public (based on the information available to the Company). Accordingly, the Company has complied with Rule 723 of the Listing Manual of Singapore Exchange Securities Trading Limited.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Annual General Meeting (the “AGM”) of Fu Yu Corporation Limited (“the Company”) will be held at Bridge Rooms, Level 2, Raffles Marina, 10 Tuas West Drive, Singapore 638404 on Friday, 28 April 2017 at 3.00 p.m. for the purposes of transacting the following businesses:

AS ORDINARY BUSINESS

1. To receive and adopt the Directors’ Statement and the Audited Financial Statements for the financial year ended 31 December 2016 together with the Auditors’ Report thereon. **(Resolution 1)**
2. To approve a tax exempt (one-tier) final dividend of 1.0 cent per ordinary share for the financial year ended 31 December 2016 as recommended by the Directors. **(Resolution 2)**
3. To re-elect the following Directors retiring pursuant to Article 91 of the Constitution of the Company:
 - (a) Mr Foo Say Tun **(Resolution 3)**
[see explanatory note (i)]

(Mr Foo Say Tun, upon re-election as a Director of the Company, remain as Chairman of the Nominating Committee; and a member of the Audit and Remuneration Committees. He is considered independent for the purpose of Rule 704(8) of the Listing Manual of the Singapore Exchange Securities Trading Limited.)
 - (b) Mr Tan Yew Beng **(Resolution 4)**
[see explanatory note (i)]

(Mr Tan Yew Beng, upon re-election as a Director of the Company, remain as Chairman of the Remuneration Committee; and a member of the Audit and Nominating Committees. He is considered independent for the purpose of Rule 704(8) of the Listing Manual of the Singapore Exchange Securities Trading Limited.)
 - (c) Mr Ching Heng Yang **(Resolution 5)**
[see explanatory note (i)]
4. To approve the payment of Directors’ fees of S\$288,000 for the financial year ending 31 December 2017, payable quarterly in arrears (2016: S\$258,000). **(Resolution 6)**
5. To re-appoint Messrs KPMG LLP as the Auditors of the Company and to authorise the Directors of the Company to fix their remuneration. **(Resolution 7)**
6. To transact any other ordinary business which may properly be transacted at an AGM.

NOTICE OF ANNUAL GENERAL MEETING

AS SPECIAL BUSINESS

To consider and if thought fit, to pass the following resolution as Ordinary Resolutions, with or without any modifications:

7. **Ordinary Resolution: Authority to allot and issue shares**

“That, pursuant to Section 161 of the Companies Act, Cap. 50 and Rule 806(2) of the Listing Manual of the Singapore Exchange Securities Trading Limited (“SGX-ST”), authority be and is hereby given to the Directors of the Company to:–

- (a) (i) issue shares in the capital of the Company (“Shares”) whether by way of rights, bonus or otherwise; and/or
- (ii) make or grant offers, agreements or options (collectively, “Instruments”) that might or would require shares to be issued, including but not limited to the creation and issue of (as well as adjustments to) securities, warrants, debentures or other instruments convertible into Shares,

at any time and upon such terms and conditions and for such purposes and to such persons as the Directors may in their absolute discretion deem fit; and

- (b) (notwithstanding the authority conferred by this Resolution may have ceased to be in force) issue shares in pursuance of any Instrument made or granted by the Directors while this Resolution was in force,

provided that:

- (1) the aggregate number of Shares to be issued pursuant to this Resolution (including shares to be issued in pursuance of Instruments made or granted pursuant to this Resolution) does not exceed fifty per cent. (50%) of the Company’s total number of issued Shares excluding treasury shares (as calculated in accordance with sub-paragraph (2) below), of which the aggregate number of Shares to be issued other than on a pro-rata basis to existing shareholders of the Company (including Shares to be issued in pursuance of Instruments made or granted pursuant to this Resolution) does not exceed twenty per cent (20%) of the Company’s total number of issued Shares excluding treasury shares (as calculated in accordance with sub-paragraph (2) below). Unless prior shareholder approval is required under the Listing Manual of the SGX-ST, an issue of treasury shares will not require further shareholder approval, and will not be included in the aforementioned limits.
- (2) (subject to such manner of calculation as may be prescribed by the SGX-ST) for the purpose of determining the aggregate number of shares that may be issued under sub-paragraph (1) above, the total number of issued Shares excluding treasury shares is based on the Company’s total number of issued Shares excluding treasury shares at the time this Resolution is passed, after adjusting for:
 - (i) new Shares arising from the conversion or exercise of any convertible securities or share options or vesting of share awards which are outstanding or subsisting at the time this Resolution is passed; and
 - (ii) any subsequent bonus issue, consolidation or subdivision of Shares;

NOTICE OF ANNUAL GENERAL MEETING

- (3) in exercising the authority conferred by this Resolution, the Company shall comply with the provisions of the Listing Manual of the SGX-ST for the time being in force (unless such compliance has been waived by the SGX-ST) and the Constitution for the time being of the Company; and
- (4) (unless revoked or varied by the Company in general meeting) the authority conferred by this Resolution shall continue in force until the conclusion of the next AGM of the Company or the date by which the next AGM of the Company is required by law to be held, whichever is the earlier.”
- [see explanatory note (ii)]*

(Resolution 8)

By Order of the Board

Teo Meng Keong
Kong Wei Fung
Joint Company Secretaries

Singapore

Dated: 13 April 2017

Explanatory Notes:

- (i) The detailed information of Mr Foo Say Tun, Mr Tan Yew Beng and Mr Ching Heng Yang can be found under the section entitled 'Board of Directors' and pages 8 and 9 of the Annual Report. There are no relationships (including immediate family relationships) between these Directors and the other Directors and the Company.
- (ii) **Ordinary Resolution 8** proposed in item 7 above, if passed, will authorise and empower the Directors of the Company from the date of the above Meeting until the next AGM to issue shares and/or convertible securities in the Company up to an amount not exceeding in aggregate 50% of the total number of issued shares excluding treasury shares of which the total number of shares and convertible securities issued other than on a pro-rata basis to existing shareholders shall not exceed 20% of the total number of issued shares excluding treasury shares of the Company at the time the resolution is passed, for such purposes as they consider would be in the interests of the Company. This authority will, unless revoked or varied at a general meeting, expire at the next AGM of the Company.

Notes:

1. A Member entitled to attend and vote at the Annual General Meeting (the "AGM") is entitled to appoint not more than two (2) proxies to attend and vote in his/her stead. A proxy need not be a Member of the Company.
2. Where a member (other than a Relevant Intermediary) appoints two (2) proxies, he/she shall specify the proportion of his/her shareholding (expressed as a percentage of the whole) to be represented by each proxy in the instrument appointing the proxies.
3. A Relevant Intermediary may appoint more than two (2) proxies, but each proxy must be appointed to exercise the rights attached to different share or shares held by him (which number and class of shares shall be specified).

"Relevant Intermediary" means:

- a) a banking corporation licensed under the Banking Act (Cap.19) or a wholly-owned subsidiary of such a banking corporation, whose business includes the provision of nominee services and who holds shares in that capacity; or
- b) a person holding a capital markets services license to provide custodial services for securities under the Securities Futures Act (Cap.289) and who holds shares in that capacity; or

NOTICE OF ANNUAL GENERAL MEETING

- c) the Central Provident Fund Board established by the Central Provident Fund Act (Cap.36), in respect of shares purchased under the subsidiary legislation made under that Act providing for the making of investments from the contributions and interest standing to the credit of members of the Central Provident Fund, if the Board holds those shares in the capacity of the intermediary pursuant to the or in accordance with that subsidiary legislation.
4. Completion and return of this instrument appointing a proxy shall not preclude a member from attending and voting at the AGM. Any appointment of a proxy or proxies shall be deemed to be revoked if a member attends the AGM in person, and in such event, the Company reserves the right to refuse to admit any person or persons appointed under the instrument of proxy to the AGM.
5. The instrument appointing a proxy or proxies must be deposited at the registered office of the Company at 8 Tuas Drive 1, Singapore 638675 not less than forty-eight (48) hours before the time appointed for holding the AGM.
6. The instrument appointing a proxy or proxies must be under the hand of the appointor or of his attorney duly authorised in writing. Where the instrument appointing a proxy or proxies is executed by a corporation, it must be executed either under its seal or under the hand of an officer or attorney duly authorised. Where the instrument appointing a proxy or proxies is executed by an attorney on behalf of the appointor, the letter or power of attorney or a duly certified copy thereof must be lodged with the instrument.
7. A corporation which is a member may authorise by resolution of its directors or other governing body such person as it thinks fit to act as its representative at the AGM, in accordance with Section 179 of the Companies Act, Chapter 50 of Singapore.
8. Investors who have used their CPF monies ("CPF Investors") to buy shares in the Company may attend and cast their vote at the AGM in person. CPF Investors who are unable to attend the AGM but would like to vote, may inform CPF Approved Nominees to appoint Chairman of the AGM to act as their proxy, in which case, the CPF Investor shall be precluded from attending the AGM.

General:

The Company shall be entitled to reject the instrument appointing a proxy or proxies if it is incomplete, improperly completed or illegible, or no, or where the true intentions of the appointor are not ascertainable from the instructions of the appointor specified in the instrument appointing a proxy or proxies. In addition, in the case of Shares entered in the Depository Register, the Company may reject any instrument appointing a proxy or proxies lodged if the member, being the appointor, is not shown to have Shares entered against his name in the Depository Register as at seventy two (72) hours before the time appointed for holding the AGM, as certified by The Central Depository (Pte) Limited to the Company.

NOTICE OF BOOKS CLOSURE

NOTICE IS HEREBY GIVEN, subject to the shareholders' approval to the proposed final dividend at the forthcoming Annual General Meeting ("AGM"), the Share Transfer Books and Register of Members of the Company will be closed on 9 May 2017 at 5.00 p.m. for the purpose of determining the entitlement of shareholders of the Company. Duly completed transfers in respect of Shares received by the Company's Share Registrar, Boardroom Corporate & Advisory Services Pte Ltd, at 50 Raffles Place, #32-01 Singapore Land Tower, Singapore 048623, up to 5.00 p.m. on 9 May 2017 will be registered to determine Shareholders' entitlements to the proposed tax exempt (one-tier) final dividend. The tax exempt (one-tier) final dividend of 1.0 cent per ordinary share, if approved at the AGM, will be paid on 19 May 2017.

Personal data privacy

By submitting an instrument appointing a proxy(ies) and/or representative(s) to attend, speak and vote at the Annual General Meeting ("AGM") and/or any adjournment thereof, a member of the Company (i) consents to the collection, use and disclosure of the member's personal data by the Company (or its agents) for the purpose of the processing and administration by the Company (or its agents) of proxies and representatives appointed for the AGM (including any adjournment thereof) and the preparation and compilation of the attendance lists, minutes and other documents relating to the AGM (including any adjournment thereof), and in order for the Company (or its agents) to comply with any applicable laws, listing rules, regulations and/or guidelines (collectively, the "Purposes"), (ii) warrants that where the member discloses the personal data of the member's proxy(ies) and/or representative(s) to the Company (or its agents), the member has obtained the prior consent of such proxy(ies) and/or representative(s) for the collection, use and disclosure by the Company (or its agents) of the personal data of such proxy(ies) and/or representative(s) for the Purposes, and (iii) agrees that the member will indemnify the Company in respect of any penalties, liabilities, claims, demands, losses and damages as a result of the member's breach of warranty.

FU YU CORPORATION LIMITED

Company Registration No. 198004601C

(Incorporated In The Republic of Singapore)

Personal data privacy

By submitting an instrument appointing a proxy and/or representative, the Member accepts and agrees to the personal data privacy terms set out in the Notice of Annual General Meeting ("AGM") dated 13 April 2017.

PROXY FORM

(Please see notes overleaf before completing this Form)

IMPORTANT

1. An investor who holds shares under the Central Provident Fund Investment Scheme ("CPF Investor") and/or the Supplementary Retirement Scheme ("SRS Investors") (as may be applicable) may attend and cast his vote (s) at the AGM in person. CPF and SRS Investors who are unable to attend the AGM but would like to vote, may inform their CPF and/or SRS Approved Nominees to appoint the Chairman of the AGM to act as proxy, in which case, the CPF and SRS Investors shall be precluded from attending the AGM.
2. This Proxy Form is not valid for use by CPF and SRS Investors and shall be ineffective for all intents and purposes if used or purported to be used by them.

I/We,

of

being a member/members of Fu Yu Corporation Limited (the "Company"), hereby appoint:

| Name | NRIC/Passport No. | Proportion of Shareholdings | |
|---------|-------------------|-----------------------------|---|
| | | No. of Shares | % |
| Address | | | |

and/or (delete as appropriate)

| Name | NRIC/Passport No. | Proportion of Shareholdings | |
|---------|-------------------|-----------------------------|---|
| | | No. of Shares | % |
| Address | | | |

or failing the person, or either or both of the persons, referred to above, the Chairman of the AGM as my/our proxy/proxies to vote for me/us on my/our behalf at the AGM of the Company to be held at Bridge Rooms, Level 2, Raffles Marina, 10 Tuas West Drive, Singapore 638404 on Friday, 28 April 2017 at 3.00 p.m. and at any adjournment thereof. I/We direct my/our proxy/proxies to vote for or against the Resolutions proposed at the AGM as indicated hereunder. If no specific direction as to voting is given or in the event of any other matter arising at the AGM and at any adjournment thereof, the proxy/proxies will vote or abstain from voting at his/her discretion.

(Please indicate your number of votes "For" or "Against" within the box provided.)

| No. | Resolutions relating to: | No. of votes For* | No. of votes Against* |
|--------------------------|---|-------------------|-----------------------|
| Ordinary Business | | | |
| 1 | Approval of Directors' Statement and Audited Financial Statements for the year ended 31 December 2016 | | |
| 2 | Approval of tax exempt (one-tier) final dividend of 1.0 cent per ordinary share for the financial year ended 31 December 2016 | | |
| 3 | Re-election of Mr Foo Say Tun as a Director | | |
| 4 | Re-election of Mr Tan Yew Beng as a Director | | |
| 5 | Re-election of Mr Ching Heng Yang as a Director | | |
| 6 | Approval of Directors' fees of S\$288,000 for the financial year ending 31 December 2017, payable quarterly in arrears | | |
| 7 | Re-appointment of Messrs KPMG LLP as Auditors | | |
| Special Business | | | |
| 8 | Authority to issue new shares | | |

* If you wish to use all your votes "For" or "Against", please indicate with an "X" within the box provided. Otherwise please indicate the number of votes.

Dated this day of 2017

| | |
|----------------------------|---------------|
| Total number of Shares in: | No. of Shares |
| (a) CDP Register | |
| (b) Register of Members | |

.....
Signature of Shareholder(s)
or, Common Seal of Corporate Shareholder

Delete where inapplicable



Notes:

1. Please insert the total number of Shares held by you. If you have Shares entered against your name in the Depository Register (as defined in section 81SF of the Securities and Futures Act (Chapter 289) of Singapore), you should insert that number of Shares. If you have Shares registered in your name in the Register of Members, you should insert that number of Shares. If you have Shares entered against your name in the Depository Register and Shares registered in your name in the Register of Members, you should insert the aggregate number of Shares entered against your name in the Depository Register and registered in your name in the Register of Members. If no number is inserted, the instrument appointing a proxy or proxies shall be deemed to relate to all the Shares held by you.
2. A member of the Company (other than a Relevant Intermediary*), entitled to attend and vote at a AGM of the Company is entitled to appoint one (1) or two (2) proxies to attend and vote in his/her stead. A proxy need not be a member of the Company.
3. Where a member (other than a Relevant Intermediary*) appoints two (2) proxies, the appointments shall be invalid unless he/she specifies the proportion of his/her shareholding (expressed as a percentage of the whole) to be represented by each proxy.
4. A Relevant Intermediary may appoint more than two (2) proxies, but each proxy must be appointed to exercise the rights attached to a different share or shares held by him (which number and class of shares shall be specified).
"Relevant Intermediary" means:
 - a) a banking corporation licensed under the Banking Act (Cap. 19) or a wholly-owned subsidiary of such a banking corporation, whose business includes the provision of nominee services and who holds shares in that capacity; or
 - b) a person holding a capital markets services licence to provide custodial services for securities under the Securities Futures Act (Cap. 289) and who holds shares in that capacity; or
 - c) the Central Provident Fund Board established by the Central Provident Fund Act (Cap. 36), in respect of shares purchased under the subsidiary legislation made under that Act providing for the making of investments from the contributions and interest standing to the credit of members of the Central Provident Fund, if the Board holds those shares in the capacity of an intermediary pursuant to or in accordance with that subsidiary legislation.

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FU YU CORPORATION LIMITED

8 Tuas Drive 1
Singapore 638675

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5. Completion and return of this instrument appointing a proxy shall not preclude a member from attending and voting at the AGM. Any appointment of a proxy or proxies shall be deemed to be revoked if a member attends the AGM in person, and in such event, the Company reserves the right to refuse to admit any person or persons appointed under the instrument of proxy to the AGM.
6. The instrument appointing a proxy or proxies must be deposited at the registered office of the Company at 8 Tuas Drive 1, Singapore 638675 not less than forty-eight (48) hours before the time appointed for the AGM.
7. The instrument appointing a proxy or proxies must be under the hand of the appointor or of his attorney duly authorised in writing. Where the instrument appointing a proxy or proxies is executed by a corporation, it must be executed either under its seal or under the hand of an officer or attorney duly authorised. Where the instrument appointing a proxy or proxies is executed by an attorney on behalf of the appointor, the letter or power of attorney or a duly certified copy thereof must be lodged with the instrument.
8. A corporation which is a member may authorise by resolution of its directors or other governing body such person as it thinks fit to act as its representative at the AGM, in accordance with Section 179 of the Companies Act, Chapter 50 of Singapore.
9. Investors who have used their CPF monies ("CPF Investors") to buy shares in the Company may attend and cast their vote at the AGM in person. CPF Investors who are unable to attend the AGM but would like to vote, may inform CPF Approved Nominees to appoint Chairman of the AGM to act as their proxy, in which case, the CPF Investor shall be precluded from attending the AGM.

General:

The Company shall be entitled to reject the instrument appointing a proxy or proxies if it is incomplete, improperly completed or illegible, or where the true intentions of the appointor are not ascertainable from the instructions of the appointor specified in the instrument appointing a proxy or proxies. In addition, in the case of Shares entered in the Depository Register, the Company may reject any instrument appointing a proxy or proxies lodged if the member, being the appointor, is not shown to have Shares entered against his name in the Depository Register as at seventy-two (72) hours before the time appointed for holding the AGM, as certified by The Central Depository (Pte) Limited to the Company.

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