

GOVERNANCE REPORT

The board of directors (the “**Board**”) of Procurri Corporation Limited (the “**Company**”, and together with its subsidiaries, the “**Group**”) recognises the importance of corporate governance and is committed to ensuring that a high standard of corporate governance is practised within the Group.

This report describes the Company’s ongoing efforts in complying with the Code of Corporate Governance 2012 (the “**Code**”) and where applicable, the Listing Manual (the “**Listing Rules**”) of the SGX-ST throughout the financial year. The Company has complied with the Code, except where otherwise explained. In areas where the Group has not complied with the Code, the Group will continue to assess its needs and implement appropriate measures accordingly.

(A) BOARD MATTERS

THE BOARD’S CONDUCT OF ITS AFFAIRS

Principle 1: 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.

- 1.1 The Board’s principal functions are to:
- (a) decide on matters in relation to the Group’s activities which are of a significant nature, including the approval of major investments and divestments;
 - (b) oversee the business and affairs of the Company, establish, with management, the strategies and financial objectives to be implemented by management, and monitor the performance of management;
 - (c) identify the key stakeholder groups and recognise that their perceptions affect the Company’s reputation;
 - (d) oversee processes for evaluating the adequacy of internal controls, risk management, financial reporting and compliance, and satisfy itself as to the adequacy of such processes;
 - (e) assume responsibility for corporate governance;
 - (f) set the Company’s values and standards (including ethical standards); and
 - (g) consider sustainability issues as part of its strategic formulation.
- 1.2 All directors recognise that they have to discharge their duties and responsibilities at all times as fiduciaries in the interests of the Company. The Board is accountable to the shareholders through effective governance of the business.
- 1.3 To assist the Board in the execution of its responsibilities, the Board has constituted various Board committees, namely the Audit Committee, the Nominating Committee and the Remuneration Committee (collectively, the “**Board Committees**”). The role and function of each Board Committee is described in subsequent sections in this report. While these Board Committees are delegated with certain responsibilities, the ultimate responsibility and decision lies with the Board.

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- 1.4 The Board conducts regular scheduled meetings on a quarterly basis. Ad-hoc meetings are convened when circumstances require. The Constitution of the Company (the "Constitution") permits directors to attend meetings by telephonic or video-conference meetings.

The number of Board and Board Committee meetings, and the record of attendance of each director for FY2017 is set out below:

Name	Board		Remuneration Committee		Nominating Committee		Audit Committee	
	No. of meetings		No. of meetings		No. of meetings		No. of meetings	
	Held	Attended	Held	Attended	Held	Attended	Held	Attended
Mr Thomas Sean Murphy	6	6	1	1*	1	1*	7	5*
Mr Edward John Flacbarth	6	5 [#]	–	–	–	–	7	3*
Mr Lim Swee Yong	6	6	1	1	1	1	7	7
Mr Ng Loh Ken Peter	6	6	1	1	1	1	7	7
Mr Ho Chew Thim	6	6	1	1	1	1	7	7
Mr Wong Quee Quee, Jeffrey	6	6	1	1	1	1	7	7

Notes:

* Attended as invitees

Mr Edward John Flacbarth had attended all Board meetings which were held in FY2017 since his appointment to the Board on 27 April 2017.

- 1.5 The Board has adopted a set of guidelines on matters that require its approval. Matters which are specifically reserved for the Board's approval include those involving business plans and budgets, material acquisitions and disposals of assets, corporate or financial restructuring, share issuances, dividends and other returns to shareholders.
- 1.6 An induction program is conducted for all new directors appointed to the Board which seeks to familiarise the directors with the Group's businesses, board processes, internal controls and governance practices. The Company also provides the opportunity for the directors to attend seminars and training to enable them to keep pace with regulatory changes, where changes to regulations and accounting standards have a material bearing on the Company and to enable them to discharge their duties. The Company is responsible for arranging and funding the training of directors.
- 1.7 Each Board Committee is constituted with clear terms of reference to assist the Board in discharging its functions and responsibilities. The terms of reference are provided to each newly-appointed director.

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BOARD COMPOSITION AND GUIDANCE

Principle 2: There should be a strong and independent element on the board, which is able to exercise objective judgment 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.

2.1 The Board currently comprises six directors, three of whom are independent non-executive directors. As independent non-executive directors make up half of the Board, the Board is able to exercise objective judgment independently from management and no individual or small group of individuals dominate the decisions of the Board. Each independent director is required to complete a confirmation form annually to confirm his independence.

2.2 As the Chairman of the Board and the chief executive officer is the same person, half of the Board is made up of independent directors. The Chairman, Mr Thomas Sean Murphy is also the Global Chief Executive Officer ("**Global CEO**").

2.3 The Board currently comprises:

Mr Thomas Sean Murphy	(Chairman and Global CEO)
Mr Edward John Flacbarth	(Executive Director and Global President)
Mr Lim Swee Yong	(Non-Executive Director)
Mr Ho Chew Thim	(Lead Independent Director)
Mr Ng Loh Ken Peter	(Independent Director)
Mr Wong Quee Quee, Jeffrey	(Independent Director)

After taking into account the views of the Nominating Committee, the Board is satisfied that each independent director is independent in character and judgement and that there are no relationships or circumstances which are likely to affect, or could affect, the director's judgement, save that Mr Ho Chew Thim is the lead independent director of the Company as well as DeClout Limited ("**DeClout**", and together with its subsidiaries, the "**DeClout Group**"), a controlling shareholder of the Company. The Board has determined that our Lead Independent Director, Mr Ho Chew Thim, be considered independent notwithstanding that he is also the lead independent director of DeClout as (i) the Company is independently and separately managed from the DeClout Group, with no sharing or overlapping of any key staff; (ii) he will not participate in any discussions in relation to any interested person transactions between the Group and the DeClout Group, and he will abstain from voting on any such proposals at any of either the Company's or DeClout's board of directors meetings and refer such matter to the Audit Committee Chairman; and (iii) he will abstain from participating in any proceedings involving transactions with the DeClout Group or where there would be conflicts of interest with the DeClout Group.

2.4 The Board confirms that no independent director has served on the Board beyond nine years from the date of his first appointment.

2.5 The Board is of the view that, given the scope and nature of the Group's operations, the current size of the Board is appropriate for effective decision making.

2.6 The Board is of the opinion that the current Board comprises persons who, as a group, have core competencies, such as finance, accounting, legal, business and industry knowledge, necessary to lead and manage the Company. The profiles of each of the directors are set out in the Board of Directors section in this Annual Report.

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- 2.7 The non-executive directors provide, amongst other things, strategic guidance to the Company, assistance to constructively challenge and develop strategy, as well as review the performance of the management of the Company in meeting agreed goals.
- 2.8 Where necessary, the non-executive directors may meet without the presence of the management of the Company.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Principle 3: 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.

- 3.1 The Chairman and the Global CEO roles in the Company are assumed by Mr Thomas Sean Murphy. The Board is of the view that the accountability and independence of the Board as a whole has not been compromised despite the Chairman and Global CEO being the same person, taking into consideration that half of the Board is comprised of independent directors and the commitment that the independent directors have demonstrated in their roles. The Chairman and Global CEO have defined responsibilities which, during his tenure so far, have not conflicted with each other. The Board believes there is sufficient element of independence and adequate safeguards against a concentration of power in one single person.
- 3.2 The Chairman is responsible to, among others:
- (a) lead the Board to ensure its effectiveness on all aspects of its role;
 - (b) set the agenda and ensure that adequate time is available for discussion of all agenda items, in particular strategic issues;
 - (c) promote a culture of openness and debate within the Board;
 - (d) ensure that the directors receive complete, adequate and timely information;
 - (e) ensure effective communication with shareholders;
 - (f) encourage constructive relations within the Board and between the Board and management;
 - (g) facilitate the effective contribution of non-executive directors in particular; and
 - (h) promote high standards of corporate governance.
- 3.3 The Board has appointed Mr Ho Chew Thim as the lead independent director. The lead independent director is available to shareholders where they have concerns for which contact through the normal channels of the Chairman, the CEO or the Chief Financial Officer ("**CFO**") has failed to resolve or for which such contact is not appropriate.
- 3.4 Where necessary, the independent directors shall meet without the presence of the other directors, and the lead independent director shall provide feedback to the Chairman after such meetings.

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BOARD MEMBERSHIP

Principle 4: There should be a formal and transparent process for the appointment and re-appointment of directors to the board.

4.1 The Nominating Committee comprises:

Mr Wong Quee Quee, Jeffrey	(Chairman and Independent Director)
Mr Ho Chew Thim	(Member and Lead Independent Director)
Mr Ng Loh Ken Peter	(Member and Independent Director)
Mr Lim Swee Yong	(Member and Non-Executive Director)

The members of the Nominating Committee, including the Chairman of the Nominating Committee, are independent directors except for Mr Lim Swee Yong, who is a non-executive director.

4.2 The Nominating Committee is responsible for the following under its terms of reference:

- (a) reviewing and recommending the nomination or re-nomination of the directors having regard to the director's contribution and performance;
- (b) reviewing the composition of the Board, having regard to the future requirements of the Group, as well as the need for directors who, as a group, provide an appropriate balance and diversity of skills, experience, gender and knowledge of the Group;
- (c) developing a process for evaluation of the performance of the Board, its committees and the directors;
- (d) determining on an annual basis whether or not a director is independent;
- (e) in respect of a director who has multiple board representations on various companies, to review and decide whether or not such director is able to and has been adequately carrying out his duties as director, having regard to the competing time commitments that are faced by the director when serving on multiple boards and discharging his duties towards other principal commitments;
- (f) deciding whether or not a director is able to and has been adequately carrying out his duties as a director;
- (g) reviewing and approving any new employment of related persons and the proposed terms of their employment; and
- (h) reviewing board succession plans, as well as training and professional development programmes for the Board.

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

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Pursuant to Regulation 117 of the Constitution, at each annual general meeting ("**AGM**"), one third of the directors for the time being, or if their number is not a multiple of three, the number nearest to but not less than one-third with a minimum of one, shall retire from office and a director at an AGM shall retain office until the close of the meeting, whether adjourned or not. Regulation 122 of the Constitution also provides that a person so appointed by the directors shall hold office only until the next AGM and shall then be eligible for re-election but shall not be taken into account in determining the number of directors who are to retire by rotation at such meeting.

At the forthcoming AGM, Mr Thomas Sean Murphy and Mr Lim Swee Yong will retire pursuant to Regulation 117.

Mr Lim Swee Yong will not be seeking re-appointment at the forthcoming AGM. Accordingly, he will retire as a director after the conclusion of the AGM. Mr Thomas Sean Murphy, being eligible, has offered himself for re-election. Mr Thomas Sean Murphy will, upon re-election as a director, remain as the Chairman and Global CEO.

Save for: (i) their respective shareholding interests, direct or indirect, in the Company; (ii) in respect of Mr Ho Chew Thim being the lead independent director of both the Company and DeClout; and (iii) in respect of Mr Lim Swee Yong being the Head of Corporate Office of DeClout, there are no relationships including immediate family relationships between Mr Ho Chew Thim, Mr Ng Loh Ken Peter, Mr Wong Quee Quee, Jeffrey and Mr Lim Swee Yong and the other directors, the Company, its related corporations, its 10% shareholders or its officers.

- 4.3 The Nominating Committee's assessment of the independence of a director is guided by the Code and takes into account factors, such as relationship with the Company, its related corporations, its 10% shareholders or its officers and whether these relationships interfere with his business judgement.
- 4.4 The Nominating Committee is of the view that, despite some of the directors having other board representations as described below, there are currently no compelling reasons to impose a cap on the number of board representations each director may hold since these directors are able to and have adequately carried out their duties as directors of the Company. Board meetings are planned and scheduled well in advance of the meeting dates.
- 4.5 The Board does not encourage the appointment of alternate directors. No alternate director is appointed to the Board.
- 4.6 In its search and selection process for new directors, among others, the Nominating Committee taps on the resources of the directors' contacts and recommendations of potential candidates and appraises the candidates to ensure that they possess relevant experience and have the calibre to contribute to the Group and its businesses, having regard to the attributes of the existing Board and the requirements of the Group.

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- 4.7 The following sets forth the respective dates of appointment and the dates of last re-election, as well as membership in the Board Committees, of each director:

Name of Directors and Board Membership	Date of First Appointment	Date of Last Re-Election	Audit Committee	Remuneration Committee	Nominating Committee
Thomas Sean Murphy <i>Chairman and Global CEO</i>	2 January 2014	–	–	–	–
Edward John Flacbarth <i>Executive Director and Global President</i>	27 April 2017	–	–	–	–
Lim Swee Yong <i>Non-Executive Director</i>	27 June 2016	27 April 2017	Member	Member	Member
Ho Chew Thim <i>Lead Independent Director</i>	27 June 2016	27 April 2017	Member	Chairman	Member
Ng Loh Ken Peter <i>Independent Director</i>	27 June 2016	27 April 2017	Chairman	Member	Member
Wong Quee Quee, Jeffrey <i>Independent Director</i>	27 June 2016	27 April 2017	Member	Member	Chairman

Please refer to the Board of Directors section in this Annual Report for the profile of each director's professional qualifications, principal commitments, and directorships and chairmanships both present and those held over the preceding three years in other listed companies.

BOARD PERFORMANCE

Principle 5: 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.

- 5.1 The Nominating Committee conducts an annual assessment of the performance of the Board as a whole and the Board Committees in view of the complementary and collective nature of directors' contributions. This process is conducted using a questionnaire designed to assess the performance of the Board and the Board Committees. The Board and Board Committees' performance will be evaluated by each director and the findings are collated for the final review by the Nominating Committee and the Board.
- 5.2 The Nominating Committee has established objective performance criteria, such as frequency of meetings and participation in strategic planning, risk management and internal controls to evaluate the Board's performance as a whole.

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- 5.3 The Board reviews the assessment conducted by the Nominating Committee and where necessary makes changes to further improve the effectiveness of the Board. Following the review, the Board is of the view that the Board and the Board Committees operate effectively.

Each member of the Nominating Committee shall abstain from voting on any resolutions in respect of the assessment of his performance or re-nomination as a director.

ACCESS TO INFORMATION

Principle 6: 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.

- 6.1 The Board is provided with adequate information prior to Board meetings and on an on-going basis. The Company circulates copies of the minutes of the meetings of all Board Committees and the Board to all members of the Board to keep them informed of on-going developments within the Group. The Board also has separate and independent access to management.
- 6.2 Information provided to the Board include financial management reports, reports on performance of the Group against the budget, papers pertaining to matters requiring the Board's decision, and updates on key outstanding issues, strategic plans and developments in the Group.
- 6.3 The directors have separate and independent access to the Company Secretaries. The Company Secretaries and/or their representatives attends all Board and Board Committees' meetings. The Company Secretaries administer and prepare minutes of Board and Board Committees' meetings and assist the Chairman in ensuring that Board procedures are adhered to and that applicable statutory and regulatory rules and regulations are complied with.
- 6.4 The appointment and removal of the Company Secretaries is subject to approval of the Board.
- 6.5 Where decisions to be taken require expert opinion or specialised knowledge, the directors, whether as a group or individually, may seek independent professional advice as and when necessary in furtherance of their duties at the Company's expense.

(B) REMUNERATION MATTERS

PROCEDURES FOR DEVELOPING REMUNERATION POLICIES

Principle 7: 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.

- 7.1 The Remuneration Committee comprises:

Mr Ho Chew Thim	(Chairman and Lead Independent Director)
Mr Ng Loh Ken Peter	(Member and Independent Director)
Mr Wong Quee Quee, Jeffrey	(Member and Independent Director)
Mr Lim Swee Yong	(Member and Non-Executive Director)

The members of the Remuneration Committee, including the Chairman of the Remuneration Committee, are independent directors, except for Mr Lim Swee Yong who is a non-executive director.

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- 7.2 The key roles of the Remuneration Committee include:
- (a) recommending to the Board a framework of remuneration for the directors and the executive officers, and determining specific remuneration packages for each of them, with the recommendations of the Remuneration Committee submitted for endorsement by the entire Board. All aspects of remuneration, including but not limited to directors' fees, salaries, allowances, bonuses, options, share-based incentives and benefits in kind shall be covered by the Remuneration Committee;
 - (b) conducting an annual review of the remuneration of employees related to the directors and substantial shareholders, with the assistance of expert advice inside and/or outside the Company if needed, to ensure that their remuneration packages are in line with staff remuneration guidelines and commensurate with their respective job scopes and level of responsibilities. The Remuneration Committee will also review and approve any bonuses, pay increases and/or promotions for these employees and will also review the Company's obligations arising in the event of termination of the executive directors' and key management personnel's contracts of service, to ensure that such contracts of service contain fair and reasonable termination clauses which are not overly generous. In the event that a member of our Remuneration Committee is related to the employee under review, he will abstain from participating in the review; and
 - (c) administering the Procurri Employee Share Option Scheme (the "ESOS") and the Procurri Performance Share Plan (the "PSP").
- 7.3 If necessary, the Remuneration Committee shall seek expert advice on remuneration of directors and key management personnel. No external remuneration consultant had been appointed by the Company in FY2017 to advise on remuneration matters.

LEVEL AND MIX OF REMUNERATION

Principle 8: 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.

- 8.1 The Group adopts a compensation philosophy where the executive directors' and key management personnel's remuneration framework are structured in a way that links rewards to corporate and individual performance, taking into account comparable benchmarks. In building a sustainable and performing organization, the Group believes in creating a compensation structure that embraces competitive remuneration taking into consideration of prevailing market conditions, whilst aligning with the long-term interests of the Group. The review covers all aspects of remuneration including salaries, fees, allowances, bonuses, share options, share-based incentives and awards, and benefits-in-kind. The Remuneration Committee's recommendations are made in consultation with the Chairman of the Board and submitted for endorsement by the entire Board.

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8.2 The Company has in place the long-term incentive schemes, including the ESOS and the PSP, that serve to motivate and reward the executive directors and key management personnel, and better align their interests with that of the Company. The Company has not granted any share options so far under the ESOS. As at 31 December 2017, the Company has granted a total of 7,161,500 share awards pursuant to the PSP. The table below shows the share awards granted pursuant to the PSP during FY2017:

Date of grant of award	Number of awards* granted	Market price of the shares of the Company on date of grant (S\$)	Number of awards* granted to directors and controlling shareholders (and their associates), if any
18 May 2017	5,414,500	0.2907	2,232,500

* One share award represents one ordinary share of the Company upon vesting.

The shares to be issued pursuant to the share awards granted are subject to certain vesting schedules or performance conditions to be satisfied by the participants. Please refer to the Directors' Statement and Notes to the Financial Statements set out in this Annual Report for more information on the ESOS and the PSP.

8.3 The non-executive directors receive directors' fees in accordance with their level of contribution and commensurate with their appointment, taking into account factors, such as responsibilities, effort and time spent for serving on the Board and Board Committees. The Company believes that the current remuneration of independent directors is at a level that will not compromise their independence.

8.4 The Company currently uses contractual provisions to reclaim incentive components 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.

DISCLOSURE ON REMUNERATION

Principle 9: 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.

9.1 Mr Thomas Sean Murphy's current service agreement with the Company ends on 30 June 2019. The Company has also entered into a three-year service agreement with the Executive Director and Global President, Mr Edward John Flacbarth, commencing 27 April 2017. Each of their service agreements is renewable thereafter as may be agreed between the Company and the respective executive director. The remuneration packages of the executive directors under each of their respective service agreements comprises a basic salary component and a variable component which is the annual bonus based on the performance of the Group as a whole. The executive directors do not receive directors' fees.

All revisions to the remuneration packages of directors and key management personnel are subject to review and approval of the Board. Directors' fees are further subject to the approval of shareholders at the AGM. No directors participate in decisions on their own remuneration.

There are no termination, retirement and post-employment benefits that are granted to the executive directors.

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9.2 The remuneration of the executive directors is linked directly to the Group's financial performance through a profit sharing scheme. The Group's incentive bonus is allocated based on the Group's financial performance and the senior management may be rewarded with business unit level bonus on achievement of the key performance indicators they are responsible for.

9.3 A breakdown showing the level and mix of each individual director's remuneration paid/payable for FY2017 in bands of S\$250,000 is as follows:

Remuneration bands/ Name of director	Salary ⁽¹⁾ (%)	Bonus (%)	Director's Fees (%)	Others ⁽²⁾ (%)	Total (%)
(i) S\$500,000 to below S\$749,999					
Mr Thomas Sean Murphy	70	–	–	30	100
(ii) S\$250,000 to below S\$499,999					
Mr Edward John Flacbarth ⁽³⁾	80	–	–	20	100
(iii) Below S\$250,000					
Mr Wong Kok Khun ⁽⁴⁾	–	–	100	–	100
Mr Lim Swee Yong	–	–	100	–	100
Mr Ho Chew Thim	–	–	100	–	100
Mr Ng Loh Ken Peter	–	–	100	–	100
Mr Wong Quee Quee, Jeffrey	–	–	100	–	100

Notes:

(1) Included fixed allowances.

(2) Included fair value of the awards under PSP for FY2017 vested during the year on or before 31 December.

(3) Appointed as an executive director on 27 April 2017.

(4) Retired from the position of Non-Executive Chairman on 27 April 2017.

The Board has, on review, decided not to disclose the remuneration of the directors to the nearest thousand, as the Board believes that the disclosure is commercially sensitive and could encourage talent-poaching which possibly leads to the Company and its subsidiaries being exposed to unnecessary risks. Whilst sustaining the long-term benefit of the Company, the Board is of the view that the disclosure of the remuneration in bands has sufficiently balanced off the Company's interests and the necessity to provide sound information to the investors for their investment decisions.

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- 9.4 Given the highly competitive condition of the industry that the Group operates in, it is in the best interest of the Group to maintain confidentiality of the names and remuneration details of its top 5 key executives (who are not directors or the CEO) of the Group. For FY2017, the remuneration bands (including any bonuses, allowances, options and share-based incentives) of each of the top 5 key executives (who are not directors or the CEO) of the Group are provided below:

Remuneration bands	Number of Executives
S\$500,000 to S\$749,999 ⁽¹⁾	2
S\$250,000 to S\$499,999 ⁽¹⁾	3

Note:

(1) Included employers' CPF and fair value of the awards under PSP for FY2017 vested during the year on or before 31 December.

The total remuneration, in aggregate, paid to the top 5 key executives of the Group (who are not directors or the CEO) for FY2017 is approximately S\$2,190,000.

- 9.5 The Company does not have any employee who is an immediate family member of a director or the CEO, and whose remuneration exceeds S\$50,000 in FY2017.

(C) ACCOUNTABILITY AND AUDIT

ACCOUNTABILITY

Principle 10: The board should present a balanced and understandable assessment of the company's performance, position and prospects.

- 10.1 In presenting the annual financial statements and announcements of financial results to shareholders, it is the aim of the Board to provide shareholders with a balanced and understandable assessment of the Company's and Group's performance, position and prospects.
- 10.2 The Board keeps itself abreast and is kept informed by management of legislative and regulatory requirements.
- 10.3 The management currently provides the Board with appropriately detailed management reports of the Group's performance and position on a quarterly basis. This is supplemented by updates on matters affecting the financial performance and business of the Group, if such event occurs.

RISK MANAGEMENT AND INTERNAL CONTROLS

Principle 11: 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 risk which the board is willing to take in achieving its strategic objectives.

- 11.1 The Board oversees management in the area of risk management and internal control systems. The Board regularly reviews the Company's business and operational activities to identify areas of significant risks, as well as take appropriate measures to control and mitigate these risks.

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11.2 Management provides reports of risk management to the Board on a quarterly basis. The Company's risk management framework and internal control system covers financial, operational, compliance and information technology risks and internal controls. The internal audit function is partly outsourced to a third-party professional firm and partly conducted in-house. The Audit Committee evaluates the findings of the external and internal auditors on the Group's internal controls annually.

11.3 The Group's internal controls are designed to provide reasonable assurance with regards to the keeping of proper accounting records, integrity and reliability of financial information, and physical safeguard of assets. Management takes into consideration the risks which the Group is exposed to, the likelihood of occurrence and the cost of prevention while designing internal controls.

Based on:

- (a) the internal controls established and maintained by the Group;
- (b) work performed by the internal and external auditors, and reviews performed by the management, the Board and Board Committees; and
- (c) the confirmations received from the CEO, the CFO, and the chief executive officers of the respective subsidiaries that the Group's financial records have been properly maintained and the financial statements give a true and fair view of the Group's operations and finances; and that the Group's internal control procedures in place are adequate and effective in addressing the financial, operational, compliance, information technology controls and risk management systems,

the Board, with the concurrence of the Audit Committee, is of the opinion that the Group's current internal control procedures in place to address financial, operational, compliance, information technology controls and risk management systems are adequate and effective though continuous improvements are needed as the Group grows its businesses.

However, the Board and management acknowledge that no system can provide absolute assurance against the occurrence of material errors, poor judgement in decision-making, human errors, losses, fraud or other irregularities.

11.4 The Board collectively oversees risk management and does not have a separate Board risk committee.

AUDIT COMMITTEE

Principle 12: The board should establish an audit committee with written terms of reference which clearly set out its authority and duties.

12.1 The Audit Committee comprises:

Mr Ng Loh Ken Peter	(Chairman and Independent Director)
Mr Ho Chew Thim	(Member and Lead Independent Director)
Mr Wong Quee Quee, Jeffrey	(Member and Independent Director)
Mr Lim Swee Yong	(Member and Non-Executive Director)

The members of the Audit Committee, including the Chairman of the Audit Committee, are independent directors except for Mr Lim Swee Yong who is a non-executive director.

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- 12.2 At least two members of the Audit Committee, including the Chairman of the Audit Committee, have sufficient accounting and related financial management expertise. The Board considered that the members of the Audit Committee are suitably qualified to discharge the Audit Committee's responsibilities.
- 12.3 The Audit Committee has the authority to investigate any matters within its terms of reference and the discretion to invite any director or executive officer to attend its meetings. The management shall grant full cooperation and resources to enable it to discharge its functions properly.
- 12.4 The key roles of the Audit Committee include:
- (a) assisting the Board in discharging its statutory responsibilities on financing and accounting matters;
 - (b) reviewing significant financial reporting issues and judgments to ensure the integrity of the financial statements and any formal announcements relating to financial performance;
 - (c) reviewing the scope and results of the audit and its cost effectiveness, and the independence and objectivity of the external auditors;
 - (d) reviewing the external auditors' audit plan and audit report, and the external auditors' evaluation of the system of internal accounting controls, as well as reviewing the Group's implementation of any recommendations to address any control weaknesses highlighted by the external auditors;
 - (e) reviewing the risk management structure and any oversight of the risk management process and activities to mitigate and manage risk at acceptable levels determined by the Board, including that in connection with compliance with environmental laws and regulations;
 - (f) reviewing the statements to be included in the annual reports concerning the adequacy and effectiveness of the risk management and internal controls systems, including financial, operational, compliance and information technology controls;
 - (g) reviewing all interested person transactions (either individually or as part of a series or if aggregated with other transactions involving the same interested person during the same financial year) equal to or exceeding S\$100,000 in value but below 3.0% of the latest audited NTA of our Group every quarter, and monitoring the procedures established to regulate interested person transactions, including ensuring compliance with the Group's internal control system and the relevant provisions of the Listing Rules, as well as all conflicts of interests to ensure that proper measures to mitigate such conflicts of interests have been put in place, and approving all interested person transactions (either individually or as part of a series or if aggregated with other transactions involving the same interested person during the same financial year) equal to or exceeding 3.0% of the value of the latest audited NTA of our Group, prior to such transactions being entered into;
 - (h) reviewing the scope and results of the internal audit procedures, the implementation of recommendations by internal auditors, and at least annually, the adequacy and effectiveness of the internal audit function;
 - (i) approving the hiring, removal, evaluation and compensation of the head of the internal audit function, or the accounting/auditing firm or corporation to which the internal audit function is outsourced;

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- (j) appraising and reporting to the Board on the audits undertaken by the external auditors and internal auditors, and the adequacy of disclosure of information; and
- (k) making recommendations to the Board on the proposals to shareholders on the appointment, reappointment and removal of the external auditor, and approving the remuneration and terms of engagement of the external auditor.

12.5 The Audit Committee has met with the external auditors and the internal auditors, in each case without the presence of the management, at least annually.

12.6 The Audit Committee reviews the independence of the external auditor annually. In the selection of suitable auditing firms, the Audit Committee takes into consideration several factors such as the adequacy of resources, experience of the accounting auditing firm, the audit engagement partner assigned to the audit, the firm's other audit engagements, the size and complexity of the Group being audited, and the number and experience of supervisory and professional staff assigned to the audit and its ability to provide audit service to our foreign subsidiaries. The selected auditing firm based in Singapore is engaged as auditors for the Company, as well as our Singapore-incorporated subsidiaries.

The Group has appointed different auditors for its various subsidiaries. The Audit Committee is satisfied that the appointments would not compromise the standard and effectiveness of the audit of these subsidiaries. Accordingly, the Company has complied with Rule 712 and Rule 715 of the Listing Rules.

The Audit Committee has reviewed the independence of the external auditors of the Company including the volume of non-audit services performed, as well as the cost-effectiveness. The aggregate amount of fees paid and payable to the external auditors of the Company and other member firms of EY Global in FY2017 are tabulated in the table below:

Fees Paid and Payable	S\$	%
Audit Services	358,000	80
Non-Audit Services	87,500	20
Total	445,500	100

The non-audit fees were mainly in relation to tax advisory and transfer pricing services rendered by the external auditors of the Company. The Audit Committee is satisfied that the nature and extent of such services will not prejudice the independence of the external auditors of the Company.

12.7 The Group has implemented a whistle blowing policy. The whistle blowing policy will provide well-defined and accessible channels in the Group through which the employees of the Group may raise concerns about improper conduct within the Group in writing or by email submission. The objectives of such a policy are to ensure that arrangements are in place for independent investigation of such matters and for appropriate follow-up action.

12.8 The Audit Committee is updated annually on any changes in accounting standards by the external auditor. This ensures that the Audit Committee is kept abreast of changes to accounting standards and issues which have a direct impact on the Group's financial statements. The Audit Committee conducted meetings in FY2017 during which results announcements, external audit report, internal audit report, independence of auditors, appointment of auditors and interested person transactions were reviewed, and the duties as described above were carried out.

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12.9 No former partner or director of the Company's existing auditing firm is a member of the Audit Committee.

12.10 Key Audit Matters

In the review of the financial statements, the Audit Committee had discussions with management on the accounting principles that were applied and their judgment of items that might affect the integrity of the financial statements. The following significant matters impacting the financial statements were discussed with management and the external auditors, and were reviewed by the Audit Committee:

Significant matters	How the Audit Committee reviewed these matters and what decisions were made
(a) Revenue recognition	The Audit Committee has considered the key audit matters ("KAM") reported by the external auditors. The Audit Committee examined the findings on these and other financial reporting matters together with the external auditors and management. In these KAMs, the Audit Committee assessed the management's judgements and estimates, considered the approach and methodology applied to valuation models, and reviewed the accounting treatments adopted by management. The Audit Committee concurred with the external auditors' opinion on the KAM.
(b) Accounting for business combination	
(c) Impairment assessment of goodwill	
(d) Impairment assessment of trade receivables	
(e) Inventories write-down	

INTERNAL AUDIT

Principle 13: The company should establish an effective internal audit function that is adequately resourced and independent of the activities it audits.

13.1 The internal auditors' primary line of reporting is to the Chairman of the Audit Committee. The Group cooperates fully with the internal auditors in terms of allowing access to documents, information, properties and personnel.

13.2 The Group partially outsourced its internal audit function to an internationally recognized third party professional firm, Crowe Horwath First Trust Risk Advisory Pte Ltd, and partially conducted internal audit inhouse through the head of the internal audit function.

13.3 The Audit Committee is satisfied that the internal audit function is adequately resourced by personnel with the relevant qualifications and experience.

13.4 The internal audit function is carried out in accordance with the standards set by internationally recognised professional bodies including the Standards for the Professional Practice of Internal Auditing set by the Institute of Internal Auditors.

13.5 The Audit Committee reviews annually the adequacy and effectiveness of the internal audit function.

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(D) SHAREHOLDER RIGHTS AND RESPONSIBILITIES

SHAREHOLDER RIGHTS

Principle 14: 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.

- 14.1 The Company ensures that timely and adequate disclosure of information on matters of material impact on the Company are made to shareholders of the Company, in compliance with the requirements set out in the Listing Rules.
- 14.2 Shareholders are given the opportunity to participate in, and vote at, general meetings and shareholders are informed of the rules, including the voting procedures that govern the general meetings of shareholders.
- 14.3 On 3 January 2016, the relevant legislation was amended, among other things to allow certain members, defined as a "relevant intermediary" to attend and participate in general meetings without being constrained by the two-proxy requirement. A "relevant intermediary" includes corporations holding relevant licenses in providing nominee and custodial services and CPF Board which purchases shares on behalf of the CPF investors.

COMMUNICATION WITH SHAREHOLDERS

Principle 15: Companies should actively engage their shareholders and put in place an investor relations policy to promote regular, effective and fair communication with shareholders.

- 15.1 The Company has an investor relations and corporate marketing team who assists in facilitating the communications with all stakeholders – shareholders, analysts and media – on a regular basis, to attend to their queries or concerns, as well as to keep the market and investors publicly apprised of the Group's major corporate developments and financial performance.
- 15.2 Information is disclosed in a timely manner to the shareholders through SGXNET and is also made available on the Company's website. The Company ensures fair access of information to all shareholders at the same time and does not practise selective disclosure of material information.
- 15.3 The Company maintains regular dialogue with shareholders and the investment community through analyst briefings, investor meetings, non-deal roadshows and at the general meetings. Analyst briefings are conducted for members of the investment community and media generally after results announcements. Key management personnel, including the CEO and the CFO, are typically present in these briefings. The results announcement and the analyst briefing presentations are all published on SGXNET and are also made available on the Company's website, www.procurri.com.
- 15.4 Shareholders are given the opportunity to air their views at general meetings.

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- 15.5 The Company currently does not have a fixed dividend policy. In considering the form, frequency and amount of dividends that the Board may recommend or declare in respect of any particular year or period, the Board takes into account our retained earnings, expected future earnings, operations, cash flow, capital requirements, general business and financing conditions, as well as other factors which our directors may determine appropriate.
- 15.6 There was no dividend declared for FY2017 as the Group was in a loss-making position. Further, the Group wishes to reserve funds for the future growth of the Group.

CONDUCT OF SHAREHOLDERS' MEETING

Principle 16: 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.

- 16.1 General meetings are held in Singapore. At such meetings, shareholders of the Company are given the opportunity to air their views and ask the directors questions regarding the Company. A proxy form is sent with the notice of general meeting to all shareholders so that those shareholders who are unable to attend the general meeting in person can appoint a proxy or proxies to attend and vote on their behalf. As the authentication of shareholder identity information and other related security issues still remain a concern, the Company has decided, for the time being, not to implement absentia voting methods at general meetings.
- 16.2 Resolutions at general meetings are on each substantially separate issue. The Company avoids bundling resolutions unless they are interdependent and linked. Shareholders present are given an opportunity to clarify or direct questions on issues pertaining to the proposed resolutions before they are voted on.
- 16.3 All directors are present at general meetings to address any questions that shareholders may have. The external auditors are also present to address shareholders' queries about the conduct of the audit and preparation and content of the auditors' report.
- 16.4 Minutes of the general meetings are made available to shareholders upon their request.
- 16.5 The Company intends to employ electronic polling at the forthcoming general meetings. Separate resolutions are proposed on each substantially separate issue. To ensure transparency in the voting process, the detailed results of all resolutions put to vote showing the number of votes cast for and against each resolution, and the respective percentages are tallied and displayed live on-screen to shareholders immediately after the vote has been cast and is also announced via SGXNET after the conclusion of the general meeting.

MATERIAL CONTRACTS

Save for the service agreements between the executive directors and the Company and the transactions as disclosed in the "Interested Person Transactions" section below, there were no material contracts entered into by the Company and any of its subsidiaries involving the interests of the CEO, any director or controlling shareholders, either still subsisting at the end of FY2017 or if not then subsisting, entered into since the end of the previous financial year.

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DEALING IN SECURITIES

With reference to Rule 1207(19) of the Listing Rules, the Company issues a directive to all directors and employees not to deal in the Company's securities during the period commencing two weeks immediately preceding the announcement of the Company's results for each of the first three quarters of the financial year, or during the period commencing one month immediately preceding the announcement of the Company's full-year results, and ending on the date of announcement of the relevant results. Reminders are sent via email to remind all directors and employees.

In addition, the directors and employees are advised not to deal in the Company's securities for short-term considerations and are expected to observe the insider trading laws at all times even when dealing in securities within the permitted trading periods.

INTERESTED PERSON TRANSACTIONS

The Company has established procedures for recording and reporting interested person transactions in a timely manner to the Audit Committee and that transactions are conducted at arm's length basis and will not be prejudicial to the interests of the Company and its minority shareholders.

Details of the interested person transactions for FY2017 are as follows:

Name of Interested Person	Aggregate value of all interested person transactions during the financial period under review (excluding transactions less than S\$100,000 and transactions conducted under shareholders' mandate pursuant to Rule 920) S\$'000	Aggregate value of all interested person transactions conducted under shareholders' mandate pursuant to Rule 920 (excluding transactions less than S\$100,000) S\$'000
Provision of shared services by the DeClout Group		
DeClout Limited	N.A.	478
Others		
Pacific Wave Pte. Ltd.	471	N.A.

The Company has a general mandate from shareholders for interested person transactions pursuant to Rule 920(2) of the Listing Rules which is effective until the forthcoming AGM to be held on 30 April 2018, and the Company is seeking the approval of shareholders for the renewal of the shareholders' mandate for interested person transactions at the forthcoming AGM. Please refer to the Appendix for further details.

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USE OF PROCEEDS FROM THE INITIAL PUBLIC OFFERING (“IPO”)

The Company received net proceeds (after deducting IPO expenses of approximately S\$3.8 million) from the IPO of approximately S\$34.8 million (the “**Net Proceeds**”). As at the date of this Annual Report, the Net Proceeds have been utilised as follows:

Use of Proceeds	Amount S\$'000	Net Proceeds utilised S\$'000	Net Proceeds unutilised S\$'000
Merger and acquisitions, joint ventures and partnerships strategy	17,000	16,125	875
Enhancement of infrastructure	5,000	1,911	3,089
Repayment of loans from DeClout	6,081	6,081	–
Working capital purposes ⁽¹⁾	6,744	6,744	–
Total	34,825	30,861	3,964

Note:

(1) Breakdown of Net Proceeds used for working capital purposes:

<u>Use of proceeds for working capital purposes</u>	<u>Amount (S\$'000)</u>
Funding of capital injection into Procurri (Beijing) Co., Ltd	700
Meeting trade expenses	500
Meeting operating and other expenses	1,544
Procuring maintenance parts for the life cycle services business of the Group	4,000
Total	<u>6,744</u>

The Company will make further announcements on the use of the balance Net Proceeds as and when such Net Proceeds are disbursed.