
BOARD MATTERS

THE BOARD'S CONDUCT OF 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 success of the company. The Board works with Management to achieve this and the Management remains accountable to the Board.

Guidelines:

1.1 The Board's role is to:

- (a) provide entrepreneurial leadership, set strategic aims, and ensure that the necessary financial and human resources are in place for the company to meet its objectives;
- (b) establish a framework of prudent and effective controls which enables risk to be assessed and managed;
- (c) review management performance; and
- (d) set the company's values and standards, and ensure that obligations to shareholders and others are understood and met.

1.2 All directors must objectively take decisions in the interests of the company.

1.3 If authority to make decisions on certain board matters is delegated by the Board to any Board Committee, such delegation should be disclosed.

1.4 The Board should meet regularly and as warranted by particular circumstances, as deemed appropriate by the board members. Companies are encouraged to amend their Articles of Association to provide for telephonic and videoconference meetings. The number of board and board committee meetings held in the year, as well as the attendance of every board member at these meetings, should be disclosed in the company's annual report.

1.5 Companies should adopt internal guidelines setting forth matters that require board approval, and specify in their corporate governance disclosures the type of material transactions that require board approval under such guidelines.

1.6 Every director should receive appropriate training (including his or her duties as a director and how to discharge those duties) when he is first appointed to the Board. This should include an orientation program to ensure that incoming directors are familiar with the company's business and governance practices. It is equally important that directors should receive further relevant training, particularly on relevant new laws, regulations and changing commercial risks, from time to time.

1.7 Upon appointment of each director, companies should provide a formal letter to the director, setting out the director's duties and obligations.

Commentary:

1.8 The company is encouraged to provide training for first-time directors in areas such as accounting, legal and industry-specific knowledge.

BOARD COMPOSITION AND GUIDANCE

Principle:

2 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. No individual or small group of individuals should be allowed to dominate the Board's decision making.

Guidelines:

2.1 There should be a strong and independent element on the Board, with independent directors making up at least one-third of the Board. An "independent" director is one who has no relationship with the company, its related companies¹ 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. Examples of such relationships, which would deem a director not to be independent, include:

¹ A related company in relation to a company includes its subsidiary, fellow subsidiary, or parent company.

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- (a) a director being employed by the company or any of its related companies for the current or any of the past three financial years;
 - (b) a director who has an immediate family member² who is, or has been in any of the past three financial years, employed by the company or any of its related companies as a senior executive officer whose remuneration is determined by the remuneration committee;
 - (c) a director, or an immediate family member, accepting any compensation from the company or any of its subsidiaries other than compensation for board service for the current or immediate past financial year; or
 - (d) a director, or an immediate family member, being a substantial shareholder of or a partner in (with 5% or more stake), or an executive officer of, or a director of any for-profit business organisation to which the company or any of its subsidiaries made, or from which the company or any of its subsidiaries received, significant payments in the current or immediate past financial year. As a guide, payments³ aggregated over any financial year in excess of S\$200,000 should generally be deemed significant.

2.2 The relationships set out above are not intended to be exhaustive, and are examples of situations which would deem a director to be not independent. If the company wishes, in spite of the existence of one or more of these relationships, to consider the director as independent, it should disclose in full the nature of the director's relationship and bear responsibility for explaining why he should be considered independent.

2.3 The Board should examine its size and, with a view to determining the impact of the number upon effectiveness, decide on what it considers an appropriate size for the Board, which facilitates effective decision making. The Board should take into account the scope and nature of the operations of the company.

2.4 The Board should comprise directors who as a group provide core competencies such as accounting or finance, business or management

² As defined in the Listing Manual of the Singapore Exchange to mean the spouse, child, adopted child, step-child, brother, sister and parent.

³ Payments for transactions involving standard services with published rates or routine and retail transactions and relationships (for instance credit card or bank or brokerage or mortgage or insurance accounts or transactions) will not be taken into account, unless special or favourable treatment is accorded.

experience, industry knowledge, strategic planning experience and customer-based experience or knowledge.

2.5 Non-executive directors should:

- (a) constructively challenge and help develop proposals on strategy; and
- (b) review the performance of management in meeting agreed goals and objectives and monitor the reporting of performance.

Commentary:

2.6 To facilitate a more effective check on management, non-executive directors are encouraged to meet regularly without management present.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Principle:

3 There should be a clear division of responsibilities at the top of the company – the working of the Board and the executive responsibility of the company’s business – which will ensure a balance of power and authority, such that no one individual represents a considerable concentration of power.

Guidelines:

3.1 The Chairman and chief executive officer (“CEO”) should in principle be separate persons, to ensure an appropriate balance of power, increased accountability and greater capacity of the Board for independent decision making. The division of responsibilities between the Chairman and CEO should be clearly established, set out in writing and agreed by the Board. In addition, companies should disclose the relationship between the Chairman and CEO where they are related to each other (i.e. be of the same immediate family, as defined in footnote 2).

3.2 The Chairman should:

- (a) lead the Board to ensure its effectiveness on all aspects of its role and set its agenda;
- (b) ensure that the directors receive accurate, timely and clear information;

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- (c) ensure effective communication with shareholders;
 - (d) encourage constructive relations between the Board and Management;
 - (e) facilitate the effective contribution of non-executive directors in particular;
 - (f) encourage constructive relations between executive directors and non-executive directors; and
 - (g) promote high standards of corporate governance.

The responsibilities set out above provide guidance and should not be taken as a comprehensive list of all the duties and responsibilities of a Chairman.

Commentary:

3.3 Companies may appoint an independent non-executive director to be the lead independent director where the Chairman and the CEO is the same person, where the Chairman and the CEO are related by close family ties, or where the Chairman and the CEO are both part of the executive management team. The lead independent director (if appointed) should be available to shareholders where they have concerns which contact through the normal channels of the Chairman, CEO or Finance Director has failed to resolve or for which such contact is inappropriate.

BOARD MEMBERSHIP

Principle:

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

Guidelines:

4.1 Companies should establish a Nominating Committee (“NC”) to make recommendations to the Board on all board appointments. The NC should comprise at least three directors, a majority of whom, including the Chairman, should be independent. In addition, the NC Chairman should be a director who

is not, or who is not directly associated with⁴, a substantial shareholder (with interest of 5% or more in the voting shares of the company). Its membership should be disclosed in the annual report. The NC should have written terms of reference that describe the responsibilities of its members.

4.2 The NC should be charged with the responsibility of re-nomination having regard to the director's contribution and performance (e.g. attendance, preparedness, participation and candour) including, if applicable, as an independent director. All directors should be required to submit themselves for re-nomination and re-election at regular intervals and at least every three years.

4.3 The NC is charged with the responsibility of determining annually if a director is independent, bearing in mind the circumstances set forth in Guideline 2.1 and any other salient factors. If the NC determines that a director who has one or more of the relationships mentioned therein can be considered independent, the company should make such disclosure as stated in Guideline 2.2. Conversely, the NC has the discretion to determine that a director is non-independent even if he does not fall under the circumstances set forth in Guideline 2.1.

4.4 When a director has multiple board representations, he or she must ensure that sufficient time and attention is given to the affairs of each company. The NC should decide if a director is able to and has been adequately carrying out his/her duties as a director of the company. Internal guidelines should be adopted that address the competing time commitments that are faced when directors serve on multiple boards.

4.5 A description of the process for the selection and appointment of new directors to the Board should be disclosed. This should include disclosure on the search and nomination process.

4.6 Key information regarding directors, such as academic and professional qualifications, shareholding in the company and its subsidiaries, board committees served on (as a member or Chairman), date of first appointment as a director, date of last re-election as a director, directorships or chairmanships both present and those held over the preceding three years in other listed companies and other major appointments, should be disclosed in the annual report. In addition, the company's annual disclosure on corporate governance should indicate which directors are executive, non-executive or considered by

⁴ A director will be considered "directly associated" to a substantial shareholder when the director is accustomed or under an obligation, whether formal or informal, to act in accordance with the directions, instructions or wishes of the substantial shareholder.

the NC to be independent. The names of the directors submitted for election or re-election should also be accompanied by such details and information to enable shareholders to make informed decisions.

BOARD PERFORMANCE

Principle:

5 There should be a formal assessment of the effectiveness of the Board as a whole and the contribution by each director to the effectiveness of the Board.

Guidelines:

5.1 Every Board should implement a process to be carried out by the NC for assessing the effectiveness of the Board as a whole and for assessing the contribution by each individual director to the effectiveness of the Board. This assessment process should be disclosed in the annual report.

5.2 The NC should decide how the Board's performance may be evaluated and propose objective performance criteria. Such performance criteria, which allow for comparison with industry peers, should be approved by the Board and address how the Board has enhanced long term shareholders' value. These performance criteria should not be changed from year to year, and where circumstances deem it necessary for any of the criteria to be changed, the onus should be on the Board to justify this decision.

5.3 In addition to any relevant performance criteria which the Board may propose, the performance evaluation should also consider the company's share price performance over a five-year period vis-à-vis the Singapore Straits Times Index and a benchmark index of its industry peers.

5.4 Individual evaluation should aim to assess whether each director continues to contribute effectively and demonstrate commitment to the role (including commitment of time for board and committee meetings, and any other duties). The Chairman should act on the results of the performance evaluation, and where appropriate, propose new members be appointed to the Board or seek the resignation of directors, in consultation with the NC.

Commentary:

5.5 Other performance criteria that may be used include return on assets (“ROA”), return on equity (“ROE”), return on investment (“ROI”) and economic value added (“EVA”) over a longer-term period.

ACCESS TO INFORMATION

Principle:

6 In order to fulfil their responsibilities, Board members should be provided with complete, adequate and timely information prior to board meetings and on an on-going basis.

Guidelines:

6.1 Management has an obligation to supply the Board with complete, adequate information in a timely manner. Relying purely on what is volunteered by Management is unlikely to be enough in all circumstances and further enquiries may be required if the particular director is to fulfil his or her duties properly. Hence, the Board should have separate and independent access to the company’s senior management.

6.2 Information provided should include background or explanatory information relating to matters to be brought before the Board, copies of disclosure documents, budgets, forecasts and monthly internal financial statements. In respect of budgets, any material variance between the projections and actual results should also be disclosed and explained.

6.3 Directors should have separate and independent access to the company secretary. The role of the company secretary should be clearly defined and should include responsibility for ensuring that board procedures are followed and that applicable rules and regulations are complied with. Under the direction of the Chairman, the company secretary’s responsibilities include ensuring good information flows within the Board and its committees and between senior management and non-executive directors, as well as facilitating orientation and assisting with professional development as required. The company secretary should attend all board meetings.

6.4 The appointment and the removal of the company secretary should be a matter for the Board as a whole.

6.5 The Board should have a procedure for directors, either individually or as a group, in the furtherance of their duties, to take independent professional advice, if necessary, at the company's expense.

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.

Guidelines:

7.1 The Board should set up a Remuneration Committee (“RC”) comprising entirely of non-executive directors, the majority of whom, including the Chairman, should be independent. This is to minimise the risk of any potential conflict of interest.

7.2 The RC will recommend to the Board a framework of remuneration, and the specific remuneration packages for each director and the CEO (or executive of equivalent rank) if the CEO is not a director. The RC’s recommendations should be submitted for endorsement by the entire Board. The RC should cover all aspects of remuneration, including but not limited to director’s fees, salaries, allowances, bonuses, options, and benefits in kind. The RC will also review the remuneration of senior management.

Commentaries:

7.3 If necessary, the RC should seek expert advice inside and/or outside the company on remuneration of all directors.

LEVEL AND MIX OF REMUNERATION

Principle:

8 The level of remuneration should be appropriate to attract, retain and motivate the directors needed to run the company successfully but companies should avoid paying more than is necessary for this purpose. A significant

proportion of executive directors' remuneration should be structured so as to link rewards to corporate and individual performance.

Guidelines:

8.1 The performance-related elements of remuneration should be designed to align interests of executive directors with those of shareholders and link rewards to corporate and individual performance. There should be appropriate and meaningful measures for the purpose of assessing executive directors' performance.

8.2 The remuneration of non-executive directors should be appropriate to the level of contribution, taking into account factors such as effort and time spent, and responsibilities of the directors. Non-executive directors should not be over-compensated to the extent that their independence may be compromised.

8.3 In the case of service contracts, there should be a fixed appointment period for all executive directors. In any case, service contracts should not be excessively long or with onerous removal clauses. The RC should review what compensation commitments the directors' contracts of service, if any, would entail in the event of early termination. The RC should aim to be fair and avoid rewarding poor performance.

8.4 Long-term incentive schemes are generally encouraged. The RC should review whether directors should be eligible for benefits under long-term incentive schemes. The costs and benefits of long-term incentive schemes should be carefully evaluated. In normal circumstances, offers of shares or granting of options or other forms of deferred remuneration should vest over a period of time. The use of vesting schedules, whereby only a portion of the benefits can be exercised each year, is also strongly encouraged. Directors should be encouraged to hold their shares beyond the vesting period, subject to the need to finance any costs of acquisition and associated tax liability.

Commentaries:

8.5 In setting remuneration packages, the company should be aware of pay and employment conditions within the industry and in comparable companies. But they should use such comparison with caution, in view of the risk of an upward ratchet of remuneration levels with no corresponding improvements in performance.

8.6 Notice periods in service contracts should be set at a period of six months or less. If it is necessary to offer longer notice periods to new directors recruited from outside, such periods should reduce to six months or less after the initial notice period.

DISCLOSURE ON REMUNERATION

Principle:

9 Each company should provide clear disclosure of its remuneration policy, 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 executives, and performance.

Guidelines:

9.1 The company should report to the shareholders each year on the remuneration of directors and at least the top 5 key executives (who are not also directors) of the company. This annual remuneration report should form part of, or be annexed to the company's annual report of its directors. It should be the main vehicle through which the company reports to shareholders on remuneration matters. The members of the RC should be listed in the report.

9.2 The report should set out the names of directors and at least the top 5 key executives (who are not also directors) earning remuneration which falls within bands of S\$250,000. There will be a breakdown (in percentage terms) of each director's remuneration earned through base/fixed salary, variable or performance-related income/bonuses, benefits in kind, and stock options granted and other long-term incentives. Companies are however encouraged, as best practice, to fully disclose the remuneration of each individual director.

9.3 For transparency, the report should disclose the same details of the remuneration of employees who are immediate family members⁵ of a director or the CEO, and whose remuneration exceed S\$150,000 during the year. This can be done on a no-name basis with clear indication of which director or the CEO the employee is related to.

⁵ As defined in the Listing Manual of the Singapore Exchange to mean the spouse, child, adopted child, step-child, brother, sister and parent.

9.4 The report should also contain details of employee share schemes to enable their shareholders to assess the benefits and potential cost to the companies. The important terms of the share schemes, including the potential size of grants, methodology of valuing stock options, exercise price of options that were granted as well as outstanding, whether the exercise price was at the market or otherwise on the date of grant, market price on the date of exercise, the vesting schedule, and the justifications for the terms adopted, should be disclosed.

ACCOUNTABILITY AND AUDIT

ACCOUNTABILITY

Principle:

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

Guidelines:

10.1 The Board's responsibility to provide a balanced and understandable assessment of the company's performance, position and prospects extends to interim and other price sensitive public reports, and reports to regulators (if required).

10.2 The Management should provide all members of the Board with management accounts which present a balanced and understandable assessment of the company's performance, position and prospects on a monthly basis.

AUDIT COMMITTEE

Principle:

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

Guidelines:

11.1 The AC should comprise at least three directors, all non-executive, the majority of whom, including the Chairman, should be independent.

11.2 The Board should ensure that the members of the AC are appropriately qualified to discharge their responsibilities. At least two members should have accounting or related financial management expertise or experience, as the Board interprets such qualification in its business judgement.

11.3 The AC should have explicit authority to investigate any matter within its terms of reference, full access to and co-operation by Management and full

discretion to invite any director or executive officer to attend its meetings, and reasonable resources to enable it to discharge its functions properly.

11.4 The duties of the AC should include:

- (a) reviewing the scope and results of the audit and its cost effectiveness, and the independence and objectivity of the external auditors. Where the auditors also supply a substantial volume of non-audit services to the company, the AC should keep the nature and extent of such services under review, seeking to balance the maintenance of objectivity and value for money;
- (b) reviewing the significant financial reporting issues and judgements so as to ensure the integrity of the financial statements of the company and any formal announcements relating to the company's financial performance;
- (c) reviewing the adequacy of the company's internal controls, as set out in Guideline 12.1;
- (d) reviewing the effectiveness of the company's internal audit function; and
- (e) making recommendations to the Board on the appointment, re-appointment and removal of the external auditor, and approving the remuneration and terms of engagement of the external auditor.

11.5 The AC should meet with the external auditors, and with the internal auditors, without the presence of the company's Management, at least annually.

11.6 The AC should review the independence of the external auditors annually.

11.7 The AC should review arrangements by which staff of the company may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters. The AC's objective should be to ensure that arrangements are in place for the independent investigation of such matters and for appropriate follow up action.

11.8 The Board should disclose the names of the members of the AC and details of the Committee's activities in the company's annual report.

INTERNAL CONTROLS

Principle:

12 The Board should ensure that the Management maintains a sound system of internal controls to safeguard the shareholders' investments and the company's assets.

Guidelines:

12.1 The AC should review the adequacy of the company's internal financial controls, operational and compliance controls, and risk management policies and systems established by the Management (collectively "internal controls"). The AC should ensure that a review of the effectiveness of the company's internal controls is conducted at least annually. Such review can be carried out by the internal and/or public accountants, provided that where the public accountant is also the external auditor of the company, the AC should satisfy itself that the independence of the public accountant is not compromised by any other material relationship with the company.

12.2 The Board should comment on the adequacy of the internal controls, including financial, operational and compliance controls, and risk management systems in the company's annual report.

INTERNAL AUDIT

Principle:

13 The company should establish an internal audit function that is independent of the activities it audits.

Guidelines:

13.1 The Internal Auditor's primary line of reporting should be to the Chairman of the AC although the Internal Auditor would also report administratively to the CEO.

13.2 The Internal Auditor should meet or exceed the standards set by nationally or internationally recognised professional bodies including the Standards for the Professional Practice of Internal Auditing set by The Institute of Internal Auditors.

13.3 The AC should ensure that the internal audit function is adequately resourced and has appropriate standing within the company. For the avoidance of doubt, the internal audit function can either be in-house, outsourced to a reputable accounting/auditing firm, or performed by a major shareholder, holding company, parent company or controlling enterprise with an internal audit staff.

13.4 The AC should, at least annually, ensure the adequacy of the internal audit function.

COMMUNICATION WITH SHAREHOLDERS

Principle:

14 Companies should engage in regular, effective and fair communication with shareholders.

Guidelines:

14.1 Companies should regularly convey pertinent information, gather views or inputs, and address shareholders' concerns. In disclosing information, companies should be as descriptive, detailed and forthcoming as possible, and avoid boilerplate disclosures.

14.2 Companies should disclose information on a timely basis. Where there is inadvertent disclosure made to a selected group, companies should make the same disclosure publicly to all others as soon as practicable. This could be through the use of modern technology such as Internet websites.

Principle:

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

Guidelines:

15.1 Shareholders should have the opportunity to participate effectively and to vote in AGMs. They should be allowed to vote in person or in absentia. In this regard, companies are encouraged to make the appropriate provisions in their Articles of Association to allow for absentia voting methods such as by mail, email, fax, etc, if the shareholders so consent.

15.2 There should be separate resolutions at general meetings on each substantially separate issue. Companies should avoid "bundling" resolutions unless the resolutions are interdependent and linked so as to form one significant proposal. Where resolutions are "bundled", companies should explain the reasons and material implications.

15.3 The chairpersons of the Audit, Nomination and Remuneration committees should be present and available to address questions at general

meetings. The external auditors should also be present to address shareholders' queries about the conduct of audit and the preparation and content of the auditors' report.

Commentaries:

15.4 Companies are encouraged to amend their Articles of Association to avoid imposing a limit on the number of proxies for nominee companies so that shareholders who hold shares through nominees can attend AGMs as proxies.

15.5 Companies are encouraged to prepare minutes or notes of general meetings, which include substantial comments or queries from shareholders and responses from the Board and management, and to make these minutes or notes available to shareholders upon their requests.

DISCLOSURE OF CORPORATE GOVERNANCE ARRANGEMENTS

The Singapore Exchange Listing Rules require listed companies to describe in the annual reports their corporate governance practices with specific reference to the principles of the Code, as well as disclose and explain any deviation from any guideline of the Code. Companies are also encouraged to make a positive confirmation at the start of the corporate governance section of the annual report that they have adhered to the principles and guidelines of the Code, or specify each area of non-compliance. Many of these guidelines are recommendations for companies to disclose their corporate governance arrangements. For ease of reference, the specific principles and guidelines in the Code for disclosure are set out below:

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| • Delegation of authority, by the Board to any Board Committee, to make decisions on certain board matters | Guideline 1.3 |
| • The number of board and board committee meetings held in the year, as well as the attendance of every board member at these meetings | Guideline 1.4 |
| • The type of material transactions that require board approval under internal guidelines | Guideline 1.5 |
| • Where the company considers a director to be independent in spite of the existence of a relationship as stated in the Code that would otherwise deem him as non-independent, the nature of the director's relationship and the reason for considering him as independent should be disclosed | Guideline 2.2 |
| • Relationship between the Chairman and CEO where they are related to each other ⁶ | Guideline 3.1 |
| • Composition of nominating committee | Guideline 4.1 |
| • Process for the selection and appointment of new directors to the board | Guideline 4.5 |

⁶ As defined in the Listing Manual of the Singapore Exchange to mean the spouse, child, adopted child, step-child, brother, sister and parent.

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| • Key information regarding directors, which directors are executive, non-executive or considered by the nominating committee to be independent | Guideline 4.6 |
| • Process for assessing the effectiveness of the Board as a whole and the contribution of each individual director to the effectiveness of the Board | Guideline 5.1 |
| • Clear disclosure of its remuneration policy, level and mix of remuneration, procedure for setting remuneration and link between remuneration paid to directors and key executives, and performance | Principle 9 |
| • Composition of remuneration committee | Guideline 9.1 |
| • Names and remuneration of each director. The disclosure of remuneration should be in bands of S\$250,000. There will be a breakdown (in percentage terms) of each director's remuneration earned through base/fixed salary, variable or performance-related income/bonuses, benefits in kind, and stock options granted and other long-term incentives. | Guideline 9.2 |
| • Names and remuneration of at least the top 5 key executives (who are not also directors). The disclosure should be in bands of S\$250,000 and include a breakdown of remuneration. | Guideline 9.2 |
| • Remuneration of employees who are immediate family members of a director or the CEO, and whose remuneration exceed S\$150,000 during the year. The disclosure should be made in bands of \$250,000 and include a breakdown of remuneration. | Guideline 9.3 |
| • Details of employee share schemes | Guideline 9.4 |
| • Composition of audit committee and details of the committee's activities | Guideline 11.8 |

- Adequacy of internal controls, including financial, operational and compliance controls, and risk management systems | Guideline 12.2