
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.

Guidance Notes:

1.1 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 meetings held in the year, as well as the attendance of every board member at those meetings and meetings of specialised committees established by the Board, should be disclosed in the company's annual report.

1.2 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.

1.3 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-training 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.

BOARD COMPOSITION AND BALANCE

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.

Guidance Notes:

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:

- 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

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

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

companies as a senior executive officer whose remuneration is determined by the remuneration committee;

- c) a director accepting any compensation from the company or any of its related companies other than compensation for board service for the current or immediate past financial year; or
- d) a director being a substantial shareholder of or a partner in (with 5% or more stake), or an executive officer of, any for-profit business organisation to which the company made, or from which the company 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 four 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 experience, industry knowledge, strategic planning experience and customer-based experience or knowledge.

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.

Guidance Notes:

3.1 The roles of chairman and chief executive officer ("CEO") should in principle be separate, to ensure an appropriate balance of power, increased accountability and greater capacity of the Board for independent decision making. 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:

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.

- a) schedule meetings that enable the Board to perform its duties responsibly while not interfering with the flow of the company's operations;
- b) prepare meeting agenda in consultation with the CEO;
- c) exercise control over quality, quantity and timeliness of the flow of information between Management and the Board; and
- d) assist in ensuring compliance with company's guidelines on corporate governance.

3.3 The responsibilities set out in the above guidelines pertain only to the chairman's role in respect of board proceedings. It should not be taken as a comprehensive list of all the duties and responsibilities of a chairman.

BOARD MEMBERSHIP

Principle:

4 There should be a formal and transparent process for the appointment of new directors to the Board. As a principle of good corporate governance, all directors should be required to submit themselves for re-nomination and re-election at regular intervals.

Guidance Notes:

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. The NC should have written terms of reference that describes the responsibilities of its members, and its membership is disclosed annually.

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. As a principle of good corporate governance, 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 also charged with determining annually whether or not a director is independent, bearing in mind the circumstances set forth in paragraph 2.1 and any other salient factors. If the NC determines that a director who has one or more of the relationships mentioned therein is in fact independent, the company should make such disclosure as stated in paragraph 2.2.

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 whether or not a director is able to and has been adequately carrying out his/her duties as 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 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 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.

Guidance Notes:

5.1 The NC should decide how the Board's performance may be evaluated and propose objective performance criteria. Such performance criteria, that allow comparison with its 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.

5.2 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. Other performance criteria that may be used include return on assets ("ROA"), return on equity ("ROE"), return on investment ("ROI"), economic value added ("EVA") and profitability on capital employed.

5.3 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 annually.

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.

Guidance Notes:

6.1 Management has an obligation to supply the Board with complete, adequate information in a timely manner. Reliance 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. The company secretary should attend all board meetings.

6.4 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 fixing the remuneration packages of individual directors. No director should be involved in deciding his own remuneration.

Guidance Notes:

7.1 The Board should set up a remuneration committee ("RC") comprising a majority of non-executive directors who are independent of Management and free from any business or other relationships, which may materially interfere with the exercise of their independent judgement. This is to minimise the risk of any potential conflict of interest.

7.2 The RC should be chaired by an independent non-executive director, and have at least one member who is knowledgeable in the field of executive compensation, failing which the committee should have access to expert advice inside and/or outside the company.

7.3 The RC will recommend to the Board a framework of remuneration for the Board and key executives, and to determine specific remuneration packages for each executive director and the CEO (or executive of equivalent rank) if the CEO is not an executive director. The committee's recommendations should be made in consultation with the chairman of the Board and submitted for endorsement by the entire Board. The committee should cover all aspects of remuneration, including but not limited to director's fees, salaries, allowances, bonuses, options, and benefits in kind.

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 for this purpose. A proportion of the remuneration, especially that of executive directors, should be linked to performance.

Guidance Notes:

8.1 In setting remuneration packages, the company should be aware of pay and employment conditions within the industry and in comparable companies. The remuneration packages should take into account the company's relative performance and the performance of individual directors.

8.2 The performance-related elements of remuneration should form a significant proportion of the total remuneration package of executive directors and should be designed to align their interests 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.

8.3 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. The Board may, if it considers necessary, consult experts on the remuneration of non-executive directors. The Board should recommend the remuneration of the non-executive directors for approval at the AGM.

8.4 In the case of service contracts, there should be a fixed appointment period for all directors, after which they are subject to re-election. In any case, service contracts should not be excessively long or with onerous removal clauses. The RC should consider what compensation commitments the directors' contracts of service, if any, would entail in the event of early termination. The committee should aim to be fair and avoid rewarding poor performance.

8.5 Long-term incentive schemes, including share schemes, are generally encouraged. The RC should consider whether directors should be eligible for benefits under long-term incentive schemes. The use of share schemes, including share option schemes, should be weighed against other kinds of long-term incentive scheme. 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.

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.

Guidance Notes:

9.1 The Board 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 no upper limit. Within each band, 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 members⁴ 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.

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.

⁴ As defined in the Listing Manual of the Singapore Exchange to mean the spouse, child, adopted child, step-child, brother, sister and parent.

9.5 The Board's annual remuneration report need not be a standard term of agenda for AGMs. The Board should, however, consider each year whether the circumstances are such that the AGM should be invited to approve the policy set out in the report and should minute their conclusions.

ACCOUNTABILITY AND AUDIT

ACCOUNTABILITY

Principle:

10 The Board is accountable to the shareholders while the Management is accountable to the Board.

Guidance Notes:

10.1 The Board should provide the shareholders with a balanced and understandable assessment of the company's performance, position and prospects on a quarterly basis. This responsibility 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 a balanced and understandable management accounts 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.

Guidance Notes:

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 keeping under review 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 committee should keep the nature and extent of such services under review, seeking to balance the maintenance of objectivity and value for money.

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 Board should disclose the names of the members of the AC, details of the Committee's activities, the number of Committee meetings held in that year, and the attendance of individual directors at such meetings 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.

Guidance Notes:

12.1 The AC should ensure that a review of the effectiveness of the company's material internal controls, including financial, operational and compliance controls, and risk management, is conducted at least annually. Such review can be carried out by the internal and/or external auditors.

12.2 The Board should comment on the adequacy of the internal controls 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.

Guidance Notes:

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.

Guidance Notes:

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.

Guidance Notes:

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, and equal effect should be given to votes whether cast 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 distinct issue.

15.3 The chairpersons of the audit, nomination and/or remuneration committees should be present and available to address questions at general meetings. The external auditors should also be present to assist the directors in addressing any relevant queries by shareholders.