Improving the Implementation of Corporate Governance Practices in Singapore

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for

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ABOUT THE AUTHOR

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Prof. Mak is a fellow of the Singapore Institute of Directors (SID) and was a council member of the SID from 2000-2005. He is Deputy Chairman of the Corporate Governance Committee of the Institute of Certified Public Accountants of Singapore (ICPAS) and a core member of the OECD Asian Corporate Governance Roundtable since its establishment in 1999. Prof. Mak was a member of the Council on Corporate Disclosure and Governance (CCDG) from 2002-2005 and was also a member of the Corporate Governance Committee which published the first Code of Corporate Governance in 2001. He was recently appointed to the Charity Council. Prof. Mak sits on several not-for-profit boards and on the Audit Advisory Committee of the United Nations Population Fund based in New York. He is Co-Chair of the Singapore Corporate Governance Awards Committee and Chair of the Investor Relations Award under the Singapore Corporate Awards.

Prof. Mak has consulted for regulators, companies and intergovernmental organizations and conducts training in corporate governance for directors, senior executives and regulators. He has published widely in both academic and professional journals on corporate governance and accounting issues and is an editorial board member of several international journals. He is also a frequent commentator in the local and international media on corporate governance and accounting issues and speaks regularly at local and international conferences. His book “From Conformance to Performance: Best Corporate Governance Practices for Asian Companies” was published by McGraw-Hill in July 2005.

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1. EXECUTIVE SUMMARY

Singapore has an international reputation for good corporate governance, and has been ranked as having the best corporate governance in Asia in several surveys, including the CG Watch 2005 published by Asian Corporate Governance Association and CLSA. However, it is also widely recognized that compared to developed markets like Australia, U.K. and the U.S., there is considerable room for improvement. Improving corporate governance standards in Singapore can enhance Singapore's reputation as an international financial centre, help attract international investment, improve the liquidity of our stock markets, and reduce the cost of capital for our companies. It is therefore important that we continue to look for ways to improve the standards of corporate governance of our companies, especially our listed companies.

In May 2006, the Monetary Authority of Singapore and the Singapore Exchange Limited (SGX) commissioned Associate Professor Mak Yuen Teen, Director of the Corporate Governance and Financial Reporting Centre at the National University of Singapore, to undertake a project aimed at assessing the current state of corporate governance practices in Singapore and proposing measures to raise corporate governance practices in Singapore. The project was aimed at improving the substance of corporate governance practised by companies listed on the SGX within the context of the current rules, regulations, principles and guidelines. It was not focused on proposing new rules, regulations, principles or guidelines.

The project was conducted in two stages. For the first stage, a scorecard was developed to assess the current state of corporate governance practices and disclosures in Singapore, based on key areas in the Singapore Code of Corporate Governance. The scorecard was designed to allow an assessment of not only whether a company has reported the implementation of recommended corporate governance practices, but also the extent to which it has provided details of implementation. A total of 490 Mainboard and 169 SESDAQ companies were included in assessment of corporate governance disclosures and practices using the scorecard, using the 2005/6 annual reports of these companies. The objective of this assessment was to ascertain the overall implementation of recommended corporate governance disclosures and practices and no ranking of companies was done. A database of directors currently sitting on the boards of SGX-listed companies was also developed. The purpose of this database was to study issues such as number of directorships held by independent directors and the tenure of directors. This stage of the study was completed in December 2006.

For the second stage, two focus group discussions, involving primarily independent directors, were organized by the MAS and SGX in early February 2007. The objective of the focus group discussions was to obtain views on some of the key issues identified in the first stage study. The focus groups discussed issues relating to the implementation of the "comply or explain" requirement, training of directors, independent directors, and audit committees.

This report presents the findings from the project and the author's recommendations for improving the implementation of corporate governance practices in Singapore. Implementing these recommendations and improving corporate governance practices require the collective effort of regulators, directors, senior management, investors, and other market players and stakeholders. Independent directors can play a particularly important role in improving the corporate governance culture of companies they serve on and championing the implementation of sound corporate governance practices.

The key findings and recommendations from the study are summarised below.

Recommendation 1: Implementation of the "Comply or Explain" Requirement

It was found that non-compliance with the letter or spirit of the "comply or explain" requirement in relation to the Singapore Code of Corporate Governance was relatively common. The implementation of the "comply or explain" requirement can be improved by improving the understanding and acceptance of the "comply or explain" requirement and of certain Code guidelines; providing more guidance to companies on implementing the spirit of Code principles and guidelines; improving the process within companies in ensuring compliance with the "comply or explain" requirement; and enhancing the monitoring and enforcement of the "comply or explain" requirement.

The following measures should be considered to improve the implementation of the "comply or explain" requirement:

a) The board of directors of companies should ensure that there is a process in place to ensure proper application of the "comply or explain" requirement and that corporate governance disclosures in annual report reflect corporate governance practices of the company.
b) Companies should use a checklist internally to ensure that key corporate governance practices relating to each principle are described, and confirming if the company complies with each guideline, and if not, to provide an explanation.
c) To aid investors in understanding the extent of application of the Code, companies should provide a positive confirmation statement at the beginning of the corporate governance report that the company has applied all the principles and complied with all the guidelines, or to identify deviations where this is not the case.
d) The committee responsible for reviewing the Code should provide clearer rationale for specific principles and guidelines so that the intent of these guidelines is properly understood by companies.
e) Regulators should lead initiatives to provide more practical guidance and education on implementing major principles and guidelines within the Code, including good corporate governance reporting practices, for example, through joint efforts between the regulators and the major professional bodies, disseminating guidance developed by regulators and professional bodies in other countries, and by organizing educational forums whereby good practices can be shared.
f) Shareholders should question companies at AGMs about their corporate governance practices as disclosed in the corporate governance report.
g) Regulators should lead initiatives to periodically review compliance with the Code and implementation of the "comply or explain" requirement, with a view to educating companies on how to improve the implementation of the Code, identifying challenges faced in implementation, and providing inputs into future revisions of the Code.

Recommendation 2: Independence, Effectiveness and Pool of Independent Directors

The study found that acceptance of the Code's recommendations in terms of proportion of independent directors on the board and on board committees is very high across Mainboard, SESDAQ and foreign companies. However, compared to Mainboard companies, a lower proportion of SESDAQ companies have gone beyond the Code's recommendation of at least one-third of independent directors on the board. SESDAQ companies are also more likely to have family relationships among the Chairman, other directors and senior management. This creates greater challenges to independent directors in discharging their responsibilities. Foreign companies face even more challenges in recruiting good independent directors.

The proportion of directors who are labeled as independent generally meets the Code's recommendations. Nevertheless, there are concerns about the amount of influence which controlling shareholders have over the appointment of independent directors, the process by which independent directors are typically appointed, the relatively small pool from which independent directors are drawn, and how nominating committees are assessing the independence of directors. These could affect the ability or willingness of independent directors to act independently.

On the issue of number of directorships currently held and the tenure of independent directors, the proportions of directors who serve on many boards or who have served for a long time as independent directors on boards are currently relatively low. Currently, about 6.5 percent of independent directors sit on more than 4 boards of SGX-listed companies and about 10 percent of independent directors have served on their boards for more than 9 years. Nevertheless, shareholders should question boards as to whether directors who serve on many boards are able to commit the necessary time to discharging their responsibilities, and whether independent directors who have served for a long time can continue to be considered to be independent.

Currently, independent directors usually resign without giving reasons, even though their resignation may be due to serious disagreement with the board or concerns about governance of the company. There is often a lack of transparency when directors resign because companies commonly include announcements of resignations together with other announcements.

The following measures should be considered to improve the independence, effectiveness and the pool of independent directors:

a) Investors, including institutional investors at the IPO stage, should apply more pressure on companies to adopt more open processes for recruiting independent directors and be more proactive in proposing independent director candidates and asking questions about the choice of independent director candidates.

b) Regulators should consider supporting the creation of an online directors' register to increase the pool of independent directors and to assist companies in finding independent director candidates.

c) Nominating committees should adopt a more holistic approach, consistent with the spirit of Guideline 2.1, in assessing the independence of independent directors. They should consider the relationships specified in Guideline 2.1 as examples of relationships that may affect the actual or perceived independence of directors and be more stringent in assessing the independence of directors who are also professional advisers for the company.

d) The SGX should have a separate category for announcements of "resignations of directors and key officers" on the SGXNET. Companies should state more clearly the reasons for director resignations.

e) Independent directors who are resigning should be encouraged to privately communicate any concerns to the SGX or other regulators.

Recommendation 3: Remuneration Disclosures and Policies

Globally, executive and director remuneration is one of the top issues of concern to shareholders. However, remuneration disclosures and policies for directors and senior executives is a significant area of weakness among Singapore companies. There is also evidence that many Singapore companies use mainly short-term incentives – such as annual cash bonuses and share incentives that vest over short periods - which are not necessarily consistent with the creation of long-term shareholder value. The lack of transparency in remuneration policies and levels increases the risk of excessive remuneration.

The following measures should be considered to improve remuneration disclosures and policies:

a) Minority shareholders (including institutional shareholders) should apply more pressure on companies to provide full disclosure of remuneration of individual directors and key executives, especially those directors or key executives who are controlling shareholders or related to controlling shareholders. Minority shareholders should consider using s164A to requisition for full disclosure of individual directors' remuneration. The SGX can also use rule 704(11) to improve disclosure of remuneration of executives who are related to a director, CEO or substantial shareholder.
b) Companies should be encouraged to have a better balance between short-term and long-term incentives in their remuneration policies. IPO sponsors and major outside investors should be more pro-active in encouraging the use of longer-term incentives in service agreements at the IPO stage.
c) Companies should pay more attention to the design and implementation of share-based remuneration to ensure that they align the interests of directors and executives to the long-term interests of shareholders, are closely linked to individual or company-specific performance, include challenging targets that reward good rather than average performance, and are disclosed on a timely basis.
d) Companies should review their non-executive directors' fees and the way these fees are set to ensure that they are able to attract good and committed independent directors. Shareholders should be open to paying higher fees for good independent directors, provided companies are transparent about the setting of fees and able to justify higher fees.

Recommendation 4: Audit Committee (AC)

To be effective, an AC needs to be highly independent, have the necessary mix of expertise and experience commensurate with the nature of its responsibilities, and devote enough time to discharging its responsibilities. Compliance with the Code guidelines on independence of the AC chair and proportion of independent directors on the AC is very high. On average, ACs of Mainboard companies meet 4 times a year, while ACs of SESDAQ companies meet 3 times a year. It should be noted that most SESDAQ companies report only on a half-yearly basis, which may explain their lower frequency of audit committee meetings.

Although the Code recommends that at least two members of the AC should have accounting or related financial management expertise or experience, the interpretation of what constitutes relevant expertise or experience is left to the Board. Based on the biographical information of directors provided in annual reports, it is estimated that between 20 to 25 percent of AC chairmen and between half to 60 percent of all AC members (including the chairmen) do not have qualifications in accounting or finance, nor have they worked in accounting or finance-related positions. Although it is recognized that diversity of background is useful on the AC and that individuals with significant business experience, but not necessarily accounting or financial management expertise or experience, can make excellent AC members, there are questions as to whether some audit committees have the necessary accounting or financial management expertise or experience for them to be truly effective. .

Training related to AC-related matters, practical guidance, and sharing of experience among AC members can help enhance the effectiveness of ACs.

The following measures should be considered to improve the effectiveness of ACs:

a) Boards of directors should ensure that there is adequate accounting or financial expertise and experience on the AC. Shareholders should query companies as to whether there is the necessary expertise or experience on the AC.
b) Regulators should work with other professional bodies and seek the assistance of experienced AC members to share practical insights into the work of the AC with less experienced AC members and to allow for the exchange of ideas through forums and roundtables.
c) Regulators should encourage, and work with, professional bodies and other market players to develop and disseminate best practice guidance relating to the AC, such as critical financial reporting issues, external audit, internal audit, internal control and risk management.

Recommendation 5: Internal Controls and Risk Management

Some of the large companies, banks and other financial institutions have established formal risk management systems and internal controls, and provide good disclosures about their risks and approaches to managing risks, and the nature of internal controls and processes for ensuring their adequacy. However, these are exceptions. Many companies do not provide statements of the board's opinion about the adequacy of internal controls – or these statements are ambiguous – even though it is accepted that the board can at best provide reasonable assurance but not absolute assurance about these controls.

There is little practical training and guidance available to directors on internal controls and risk management and insufficient attention to assisting SMEs in implementing cost-effective internal controls and risk management.

The following measures should be considered to improve disclosure and effectiveness of internal controls and risk management systems of companies:

a) Companies should provide more informative disclosures about their internal controls and risk management systems, and their approaches to ensuring their adequacy.
b) Shareholders should seek more information from companies about their risks, internal controls, risk management processes, the board's opinion on the adequacy of internal controls, and the basis for the opinion.
c) More practical guidance and training should be provided to directors on internal controls and risk management.
d) More guidance should be developed to assist listed SMEs to implement cost-effective internal controls and risk management.

Recommendation 6: Training of Directors

The training of directors in Singapore lags behind the developed markets and a number of emerging markets. This is partly due to both demand and supply issues relating to factors such as the lack of pressure on directors to go for training, lack of formal training roadmaps catering to directors with different experience, over-emphasis on legal and regulatory issues in training programs, lack of practice-oriented training, and lack of appropriate content.

The following measures should be considered to improve the demand and supply of training for directors:

a) Regulators should work with other professional bodies to specify minimum training requirements for first-time directors based on a formal training roadmap which takes into account the skills and knowledge required to be a director. Regulators and other professional bodies should encourage all directors to attend ongoing training to update themselves. More pressure should be put by shareholders on companies to disclose whether directors have attended training and the type of training attended.

b) Regulators should support initiatives to develop training roadmaps and content, and the delivery of training, for first-time and experienced directors. Collaboration with institutes of directors in more developed markets, such as Australia, to develop and deliver such programs should be explored. Support for training should include financial support, especially in developing courses and content. Types of training should include learning through case studies of practical issues faced by boards and roundtable discussions which allow the sharing of experience.

c) Regulators should support initiatives to develop more training programs and content in Chinese.

Recommendation 7: Exemption from SGX Listing Requirements

Companies with a secondary listing on the SGX are not required to comply with SGX continuing listing requirements. They are therefore not required to "comply or explain" to the Singapore Code. Some of these companies may also not "comply or explain" to the corporate governance code of the overseas exchange because the Code in the overseas exchange may not apply to companies which are incorporated in another country.

In the spirit of the disclosure-based approach and *caveat emptor*, the following measure should be considered:

SGX should clearly identify those companies which are not required to comply with its continuing listing requirements.

Recommendation 8: Institutional Shareholder Activism

Institutional shareholder activism is fundamental to raising corporate governance standards in the developed markets, and especially in the successful implementation of the "comply or explain" approach with minimal regulatory intervention. Increasingly, institutional shareholder activism has spread to other emerging markets, partly driven by the actions of international institutional investors and partly by an increase in domestic institutional shareholder activism. In Singapore, institutional shareholder activism remains at a nascent stage of development, with very few institutional investors actively engaging with companies, participating in shareholder meetings, and voting their shares. This has contributed to the lack of market enforcement of the “comply or explain” approach in Singapore. International institutional investors are also increasingly concerned about barriers to effective shareholder engagement in markets they invest in.

The following measures should be considered to promote greater institutional shareholder activism and to enhance the shareholder engagement activities of institutional investors in Singapore:

a) Barriers to shareholder engagement, including voting proxies and attending meetings, should be further studied with a view to overcoming or reducing them.
b) More pressure should be placed on institutional investors and fund managers to discharge their fiduciary duty to beneficiaries and to be more transparent in their shareholder engagement policies.

In addition to the above recommendations, the main report includes a number of annexures which listed companies and other stakeholders may find useful. These include Annex 3 which provides a suggested checklist for self-assessment of compliance with the Code of Corporate Governance 2005, Annex 4 which provides examples of good corporate governance reporting practices and Annex 5 which provides examples of poor corporate governance reporting practices.

2. PROJECT TERMS OF REFERENCE AND METHODOLOGY

This project, commissioned by the Monetary Authority of Singapore (MAS) and the Singapore Exchange (SGX), is aimed at assessing the current state of governance in Singapore and proposing measures to raise corporate governance standards in Singapore. It was agreed that the focus of the project is not on proposing new rules, regulations, principles or guidelines, but on how to improve the *substance* of corporate governance practised by companies listed on the SGX within the context of the current rules, regulations, principles and guidelines.

2.1. Terms of Reference

The terms of reference of the project are as follows:

(a) Develop a scorecard to assess the current state of corporate governance in Singapore, based on key areas in the Singapore Code of Corporate Governance and emerging international best practices;

(b) Use the scorecard to conduct a comprehensive analysis of the latest annual reports of all companies listed on the SGX and identify whether the letter and spirit of the "comply or explain" requirement has been properly implemented by companies;

(c) Examine in detail specific gaps in disclosures and practices in key areas of corporate governance and recommend how such gaps can be addressed;

(d) Analyse corporate governance disclosures and practices by company demographics in order to determine whether targeted measures are necessary to raise standards;

(e) Evaluate the effectiveness of market initiatives in Singapore aimed at raising corporate governance standards; and

(f) Propose other measures consistent with the disclosure-based environment that can be implemented by regulators and market players which will enable the SGX to become a high-quality exchange for listings of local and foreign companies and for Singapore to maintain and enhance its reputation as a leader in corporate governance in the region and internationally.

2.2. Methodology

The project was conducted in two stages. For the first stage study, a scorecard was developed to assess the current state of corporate governance in Singapore, based on key areas in the Singapore Code of Corporate Governance and emerging international best practices. The scorecard was designed to allow an assessment of not merely whether a company has reported the implementation of a recommended corporate governance practice, but also the extent to which it has provided details of its implementation. Companies which provided information beyond merely indicating the adoption of a practice or a standard boilerplate disclosure are more likely to have implemented the substance of the practice rather than just the form. The scorecard was used to conduct a comprehensive analysis of the latest annual reports (2005/6) of all companies listed on the SGX and identify whether the letter and spirit of the “comply or explain” requirement under the SGX listing rules has been properly implemented by companies. No ranking of companies on the basis of their corporate governance practices and disclosures was done. A copy of the scorecard is included in Annex 1 of this report.

A total of 490 Mainboard and 169 SESDAQ companies were included in assessment of corporate governance disclosures and practices using the scorecard.[1] A database of directors currently sitting on the boards of SGX-listed companies was also developed. This database include biographical information of directors (such as educational qualifications and experience); boards they are sitting on; whether they are chairs or members of the audit, remuneration and nominating committees of these boards; and number of years served on the board. The database was used in this project to study issues such as number of directorships held independent directors and the tenure of directors. This stage of the study was completed in December 2007.

[1] Companies with a secondary listing were excluded from the assessment of corporate governance disclosures and practices. These companies do not have to comply with the SGX continuing listing rules as long as they comply with the rules of the primary exchange on which they are listed. At the time of writing this report, there were 27 companies with a secondary listing on the SGX. Other companies which were excluded were (a) companies which were recently listed and which had not yet published an annual report; and (b) companies for which we could not locate an electronic copy of the annual report from either the SGX website or the company’s website.

For the second stage, two focus group discussions, involving primarily independent directors, were organized by the MAS and SGX in early February 2007. The objective of the focus group discussions was to obtain views on some of the key issues identified in the first stage study. The following major topics were covered in the focus group discussions:

Focus group 1:

(a) implementation of the "comply or explain" requirement

(b) training of directors

Focus group 2:

(a) independent directors

(b) audit committees

The focus groups were chaired by Ms. Yeo Lian Sim, Head of Regulation of SGX, and moderated by A/P Mak Yuen Teen. A total of 26 persons (excluding representatives from the regulatory bodies) participated in the two group discussions. 3 of these participants, who participated in the first focus group discussion, were experienced company secretaries. The other 23 participants all had experience as non-executive/independent directors, with 1 having experience on U.S. and European boards and 2 also holding executive director positions in SGX listed companies. The directors who participated in the focus group discussions held from 1 to 10 listed company directorships, and had varying backgrounds. The major comments which came out of these discussions are incorporated in this report.

3. IMPLEMENTATION OF THE "COMPLY OR EXPLAIN" APPROACH

3.1. An overview of the "comply or explain" approach

Like most other jurisdictions, Singapore adopted the "comply or explain" approach to raise corporate governance standards.[2] While the "comply or explain" approach is the approach adopted by most countries to raise corporate governance standards, some countries have incorporated certain elements normally associated with a corporate governance code into listing rules or legislation, in effect making aspects of the code mandatory.[3] For example, Hong Kong and Malaysia have made elements such as disclosure of remuneration, audit committee (AC) composition, and criteria for director independence as part of their listing rules. U.K. has made audited remuneration disclosures for individual directors legally required. Australia requires, by law, remuneration disclosures for individual directors and the top 5 executives of the listed company and the group, and has also amended the Corporations Act to make certain other items legally required (such as CEO/CFO certification, and electronic distribution of information to shareholders).[4] In Singapore, the entire Code as it was developed and subsequently revised is voluntary.

Rule 710 under the SGX listing rules requires companies to describe their corporate governance practices in relation to each of the 15 principles and comply with the guidelines under each principle, or if they do not comply, to explain why they do not comply.[5] The practice in Singapore is for companies to describe their corporate governance practices under each of the principles. As part of this description, companies

[2] A major exception to the adoption of the "comply or explain" approach is the U.S., which adopted a prescriptive approach whereby detailed rules must be followed by all companies. These detailed rules were introduced through the Sarbanes-Oxley Act and rule changes made by the SEC and the major exchanges.

[3] Netherlands has gone further and given statutory backing to the "comply or explain" requirement.

[4] The Australian reforms were introduced under the Corporate Law Economic Reform Program, also called CLERP9.

[5] The previous Code, on which this report is based, uses the term "guidance notes", while the revised Code uses the term "guidelines". I use the term "guidelines" throughout this report.

may disclose corporate governance practices that are recommended in the guidelines. However, these descriptions may also make no reference to practices recommended in the guidelines. For example, Guideline 1.7 in the Revised Code recommends that companies should provide a formal letter to a director upon his appointment, setting out his duties and obligations. As part of its description of its corporate governance practices for Principle 1 to which this particular guideline relates, there may be no mention of the issue of a formal letter. If companies do not identify non-compliances, it would imply that the company complies with the guidelines as that is what is required under the listing rules. However, based on discussions with directors and other industry professionals, this is often not the case.

There appears to be a lack of appreciation amongst many companies that any non-compliance has to be disclosed and explained, and conversely, that if non-compliance is not mentioned, it implies that the company is following the practice. There are companies that are not complying and which are not disclosing and explaining. We can see this clearly with regard to some of the corporate governance guidelines that deal with disclosure of corporate governance arrangements – such as number of listed boards a director sit on during the current year and last 3 years, attendance at board and committee meetings, etc. There are relatively common instances of companies which do not disclose such information – as recommended in the Code – and do not explain why. A detailed analysis of this issue is presented in the next section.

3.2. Current application of the "comply or explain" requirement

In this section, I report on situations of non-compliance with the letter or spirit of the "comply or explain" requirement in the listing rules. Non-compliance can be classified into the following major categories:

- non-compliance with no explanations
- partial compliance with no explanations
- false or misleading disclosures
- uninformative/boilerplate disclosures or explanations

Non-compliance with no explanations include situations such as where a company does not include a statement of adequacy of internal controls by the board or does not disclose attendance by individual directors at board meetings, and does not include explanations. This is examined more fully in the next section.

Partial compliance refers to situations such as where key information for directors is only provided for some directors rather than all directors, where information on attendance of directors is only provided for some committees, or where only some listed company directorships are listed for some or all the directors. For example, one company stated that:

> *"Mr XYZ is a Director of a number of public listed companies including Company A, Company B, Company C, Company D and Company E."*.

In the above example, the disclosure of directorships implies that the particular director is serving on 6 boards, including the board of the company making the disclosure. In actual fact, this director was on the boards of 10 SGX-listed companies at that time. Such partial disclosures of directorships are not uncommon. An important reason for having the guideline on disclosure of current directorships and chairmanships in other listed companies and other major appointments is to allow shareholders to assess whether a director may have too many commitments and therefore may not be able to devote enough time to his responsibilities as a director. Admittedly, this information is disclosed by an SGXNET announcement at the time a director is appointed onto the board. Nevertheless, this is a recommended disclosure in the annual report under the Code. Annex 4 provides some examples of companies which have provided good disclosures of directorships and key appointments of individual directors.

Based on some investigation reports on recent corporate scandals and also views expressed by market participants, there may also be instances of false or misleading disclosure of corporate governance practices by companies. For example, the investigation report into China Aviation Oil Ltd. (CAO) suggests that the description of the risk management practices in the annual report was not consistent with the actual risk management practices. In the case of another company caught in a scandal, the investigation report indicated that the Board failed to address internal control weaknesses highlighted by the internal and external auditors and yet the annual report contained a statement that the AC had reviewed the effectiveness of the internal control system and that it was satisfied that there are adequate controls in place in the company. Another possible example is the recent case where a company allegedly made false or misleading disclosures in the Corporate Governance Report about the Chairman's role. In the case of recent corporate scandals, prompt enforcement actions were taken against certain directors and senior management. In most of these cases, charges filed included those for false or misleading disclosures under section 199 of the Securities and Futures Act, even though they were not directed specifically at false or misleading disclosures in relation to corporate governance disclosures.[6]

There are also many cases of what are arguably uninformative/boilerplate disclosures. For example, one company stated the following on the evaluation of board performance and internal controls:

> *"Based on the recommendations by the NC, the Board has established processes and objective performance criteria for evaluating the effectiveness of the Board as a whole and the effectiveness of individual directors."*

The above statement on the evaluation of the board and individual directors does not tell shareholders anything about the processes and criteria used.

Another company stated that the Audit Committee reviewed the internal controls and stated the following:

> *"The Group's internal controls and systems are designed to provide reasonable assurance to the integrity and reliability of the financial information."*

Although it is accepted that internal controls can only provide reasonable but not absolute assurance, the above statement on the internal controls does not state whether the Board is

[6] See paper titled "Implementation and Enforcement of Rules in Singapore and the China Aviation Oil Case" by Y.T. Mak, L.L. Luh and A. bin Buang presented at the 2006 OECD Asian Roundtable on Corporate Governance (www.oecd.org) for a discussion of enforcement actions in relation to recent corporate scandals and insider trading violations.

of the opinion that the internal controls were in fact adequate, as recommended in the Code. It also does not contain any information about how the board ensures that management maintains a sound system of internal controls, in accordance with Principle 12 of the Code.

However, assessing the extent of false or misleading disclosures and uninformative/boilerplate disclosures, such as those described above, is difficult and somewhat subjective and is not attempted in this report. In Annex 4, some examples of good corporate governance reporting practices in several areas are provided

3.2.1. Non-compliance/partial compliance with no explanations

Where a company makes no reference to a specific guideline, there are two possible reasons:

(a) the company has complied with the guideline and therefore a strict interpretation of the "comply or explain" requirement means that no further disclosure and explanation is required.

(b) the company has not complied with the guideline and has not provided an explanation, which contravenes the "comply or explain" requirement.

For many guidelines, it is not possible to determine which of these reasons apply. This is because the reporting obligation under the Singapore Code only requires a company to describe its corporate governance practices in relation to each principle (but not with regard to each guideline) and **to disclose and explain only deviations**. However, where a Code guideline deals with **disclosure of corporate governance arrangements**, it would often be evident if a company has not complied and has not explained, and has therefore effectively breached its reporting obligation under the Code.

Annex 2 shows statistics on the extent to which Mainboard and SESDAQ companies have complied with some of the key disclosures of corporate governance arrangements, how to interpret non-disclosure, and estimated number and percentage of non-disclosure cases. Disclosure items which are only in the Revised Code are excluded, because the Revised

Code only applies for annual reports for AGMs starting 1 January 2007, while for our period of analysis, the previous Code was applicable.

However, as Annex 2 indicates, even in the case of disclosure of corporate governance arrangements, it is not always clear whether a company which did not disclose an item has indeed complied and therefore not explained, or whether it did not comply and did not explain. For example, the Code recommends that any relationship between the Chairman and the CEO be disclosed. A company which did not disclose any relationship may either have no such relationship (and therefore complies with the "comply or explain" requirement), or it may have a relationship and failed to disclose (which does not comply with the "comply or explain" requirement).

As can be seen from Annex 2, failure to fully comply even with the disclosure of corporate governance arrangements is not uncommon. Disclosure of corporate governance arrangements is best in terms of existence and membership of board committees, where there was almost 100% compliance for both Mainboard and SESDAQ companies, frequency of board meetings (97% for Mainboard and 96% for SESDAQ), frequency of board committee meetings (93% for Mainboard and 88% for SESDAQ), individual director attendance at board meetings (91% for Mainboard and 88% for SESDAQ), and individual director attendance at committee meetings (92% for Mainboard and 85% for SESDAQ). Disclosure of corporate governance arrangements was much poorer in areas such as key information regarding directors (where certain recommended information was frequently omitted by companies), process and criteria used in board and individual director evaluation, process for setting remuneration and remuneration policies, details of employee share schemes, and details about the basis or framework used in assessing the adequacy of internal controls. There are only a few items where companies sometimes provided explanations where they did not comply.

a) attendance of individual directors at board/committee meetings
b) absence of certain board committees
c) disclosure of remuneration of directors and/or senior executives

For example, one company which chose not to disclose the attendance of individual directors at board meeting gave the following reason:

> *"The Group believes that the vast and diverse experience of its Directors has enabled Board members to contribute beyond formal attendance at official meetings. Outside of Board meetings, a Board member may engage in ad hoc discussions on specific issues or prior discussions of the agenda with management."*

However, even in such cases, explanations are rarely given. For example, in the case of non-disclosure of attendance of individual directors at board meetings, an estimated 4 in 5 companies did not provide an explanation.

If compliance with the "comply or explain" requirement is problematic for those guidelines dealing with disclosure of corporate governance arrangements (where non-compliance with the "comply or explain" requirement is highly visible), it is reasonable to surmise that it will also be so for other corporate governance guidelines where non-compliance without explanations will be less obvious.

The "comply or explain" approach is, in my opinion, the right approach to take as it is non-prescriptive and allows companies to adopt corporate governance practices that suit their circumstances. However, if it is poorly applied in practice, the approach will lose its credibility and may eventually lead to investors (including global investors) disregarding the corporate governance disclosures made by companies. This will harm the stature of our capital markets and the attractiveness of our companies to investors. We need to consider strategies to improve the implementation of the "comply or explain" approach.

3.3. Improving implementation of the "comply or explain" requirement

Problems in implementing the "comply or explain" requirement are not unique in Singapore. Similar problems have been identified in studies of its application in the U.K. and Australia. I believe that improving implementation of the "comply or explain" requirement is the shared responsibility of regulators, companies and their directors, and investors.

3.3.1. Improving understanding and acceptance of the "comply or explain" requirement and of certain Code guidelines

There should be greater reinforcement to companies and directors that the "comply or explain" requirement requires compliance with ***all*** guidelines, or to explain any non-compliance from ***any of these guidelines***. In one of the focus group discussions, there was a view that some of the Code guidelines are not important or that their rationale has not been properly explained. This led some companies to focus only on those areas of the Code that they feel are important and to disregard others, both in terms of applying the guidelines and disclosing/explaining deviations. For example, some believe that areas like AC, internal control and risk management are most important as they believe that corporate governance is primarily aimed at preventing fraud. Guidelines such as those relating to attendance of directors at board or committee meetings, or biographical information of directors, are seen as less important.

Listing rule 710 also states that companies must describe their corporate governance practices with specific reference to the principles of the Code. The guidelines provide some guidance to companies on relevant corporate governance practices which should be described, although companies are not required to describe every single practice that corresponds to the guidelines. I would argue that the intent is that companies should describe their **<u>key</u>** corporate governance practices that relate to each principle. The guidelines provide guidance as to the corporate governance practices that should be described. Companies should make their own judgement as to what are the "key" corporate governance practices which are likely to be of most interest to shareholders, perhaps with inputs from shareholders either through the AGM or other avenues. However, listing rule 710 is clear in requiring that non-compliance with **<u>any</u>** guideline has to be disclosed and explained.

3.3.2. Providing more guidance to companies on implementing the spirit of Code principles and guidelines

Unlike countries like the U.K., Australia, and even Malaysia and H.K., there was little follow-up initiative to provide more guidance to help companies implement the substance of the Code.[7] For example, how should the board of directors exercise its oversight over the company's internal control and risk management systems in order to be able to comment on their adequacy as recommended in the Code? What are the key questions which the AC should ask of management, the internal auditor and the external auditor?

Without such guidance, companies are left to devise their own approaches to implementation and it is likely that only the larger companies have the resources and capabilities to do so. This may then lead to attempts, especially by smaller companies, to comply with the Code in form rather than in substance.

3.3.3. Improving the process in companies in ensuring compliance with the "comply or explain" requirement

A proper application of the "comply or explain" approach should involve a process of going through all the principles and guidelines in the Code, describing the company's key corporate practices in relation to each principle, confirming if the company complies with each guideline, and if not, to provide an explanation. It would appear that a checklist would be useful to guide companies on the proper application of the "comply or explain" requirement". In one of the focus group discussions, and other discussions with directors, company secretaries and auditors, it emerged that many companies do not have such a process nor have they developed a checklist. Annex 3 of this report provides a suggested checklist which companies may find useful to guide them internally through the process of applying the Code.

In one of the focus group discussions, it was highlighted that the preparation of the corporate governance report, and even the provision of explanations for non-compliance, was sometimes outsourced. Other directors and industry professionals have also shared with me that such a practice is not uncommon. In some cases, boards of directors do not review the corporate governance report to ensure that what is described corresponds to what is practised, even though the board of directors has overall responsibility for the corporate governance of companies and for the accuracy of the information in the annual

[7] For example, in the U.K., various committees were set up to develop guidance on internal control (the Turnbull committee) and audit committees (the Smith committee).

report. In one of the focus group discussions, some participants suggested that the board should task one of the committees, such as the AC, to ensure the proper application of the Code and that the corporate governance report accurately reflects the company's corporate governance practices.

Perhaps to focus the attention of companies and boards on identifying non-compliance and providing explanations for non-compliance, the U.K. Combined Code (2003) requires a positive confirmation at the start of the corporate governance report that the company has applied all the principles and complied with all the guidelines, or where it has not, to identify those which it has not complied with. It is common for U.K. companies to identify some deviations in their "positive confirmation" statement (after all, the Code is not meant to be "one size fits all"), and they would then either provide explanations for non-compliance along with their "positive confirmation" statement, or indicate that the deviations would be further discussed and explained in the relevant sections of the corporate governance report. For example, the U.K. company Cadbury Schweppes plc, included the following "positive confirmation" statement in its 2005 corporate governance report:

> *"In 2005, we fully complied with the provisions of the Code of Best Practice set out in Section 1 of the July 2003 FRC Combined Code on Corporate Governance, except for a brief period between 1 June and 24 August when John Sunderland was Executive Chairman and also a director of two other public listed companies (Code provision A4.5 states that an executive director should have only one external directorship in a FTSE100 company). His acceptance of a position on the board of Barclays PLC was agreed in anticipation of his impending retirement as an Executive Director. Because of the brevity of the period during which the Code was breached, we consider that this is acceptable."*

Shareholders reading such a statement would clearly see the areas of non-compliance. In the example above, the explanation for the non-compliance with one particular provision was clearly explained and appears to be reasonable, and it is unlikely that shareholders will take issue.

The Revised Code in Singapore encourages Singapore companies to adopt this "positive confirmation" approach although this is only an encouragement, while in the U.K., it is required. A "positive confirmation" requirement is likely to instill more discipline on companies to ensure that they have properly complied with the "comply or explain" requirement and more companies should be encouraged to provide such a statement. A "positive confirmation" statement also makes it easier for shareholders to see areas of non-compliance and to better assess the reasonableness of non-compliance and whether the necessary explanations are given for non-compliance.

It is heartening to note that Keppel Corporation, winner of the 2006 Best Managed Board Award under the Singapore Corporate Awards, has included such a statement in its 2006 annual report. Its "positive confirmation" statement states:

> *"The board and management of Keppel Corporation Limited…firmly believe that a genuine commitment to good corporate governance is essential to the sustainability of the Company's businesses and performance, and are pleased to confirm that the Company has adhered to the principles and guidelines of the new Code of Corporate Governance 2005 (the '2005 Code'), save for Guideline 3.1 (Chairman and CEO should be separate persons) the reason for which deviation is explained in this report."*

3.3.4. Enhancing monitoring and implementation of the Code and the "comply or explain" requirement

The Corporate Governance Committee which developed the first Code in Singapore advocates that the enforcement of the Code should be left to the market, which usually means institutional investors, the media and other intermediaries. However, even in the U.K. and Australia, where institutional investors and, arguably the media, are more active in highlighting corporate governance concerns of specific companies, problems in the implementation of the "comply or explain" approach have emerged.

In Australia, the Australian Stock Exchange (ASX) Markets Supervision's Issuers Unit has a Corporate Governance Review team which reviews annual reports for compliance with corporate governance requirements, including reporting obligations under the Code.

Three annual reviews have been completed and published since the adoption of the Australian Code.[8] The approach of the ASX Issuers Unit is to guide and educate listed entities about their corporate governance reporting. Where disclosure is deficient, the entity is required to make further or clarifying disclosure. In appropriate cases, the Issuers Unit will recommend that entities attend education sessions specifically designed to clarify and assist with reporting obligations. Where entities have breached the reporting obligations under the listing rules, they are usually given an appropriate time period to rectify the breach. The fact of the breach and the time frame to remedy the breach are also required to be disclosed to the market. Therefore, even though institutional investors are far more active in Australia and potentially capable of enforcing the corporate governance code, the ASX plays a key role in monitoring compliance and educating companies about their reporting obligations. The ASX reviews reported that the aggregate adoption of the ASX recommendations and "if not, why not" reporting (i.e., explanations for non-adoption) has increased to 90% in 2006, up from 88% in 2005 and 84% in 2004. In its latest report, the ASX attributed the improved levels of reporting to three factors: greater understanding and familiarity with the principles and recommendations; ASX's continuing program of monitoring corporate governance disclosures; and the continuing high profile of corporate governance issues from public consultation of proposed changes to the principles and recommendations.[9]

In contrast, Practice Note 1.2 states that SGX will no longer review the corporate governance disclosures in the annual report. This was introduced following a statement by the then Deputy Prime Minister on 24 April 2003 that it was up to the market to judge the quality of a company's corporate governance disclosures and that, under this approach, SGX will not routinely review and query the contents of corporate governance disclosures in companies' annual reports. However, as indicated by the statement and the practice note issued by SGX, action may be taken against issuers for omissions, false or misleading

[8] ASX Corporate Governance Council, Principles of Good Corporate Governance and Best Practice Recommendations, March 2003.

[9] Analysis of Corporate Governance Practice Disclosure in 2006 Annual Reports, ASX, 13 June 2007.

disclosures, or non-compliance with listing rules. This is similar to the U.K. approach, where the regulator does not routinely monitor compliance with the Code.[10]

While it is the primary responsibility of companies to ensure compliance with the "comply or explain" requirement, regulators should lead initiatives to periodically review corporate governance disclosures in annual reports to improve the implementation of the "comply or explain" requirement. This can help address some of the issues which have surfaced, especially false or misleading disclosures, non-compliance with "comply or explain", or partial compliance with no explanations, which are breaches of the "comply or explain" requirement. However, clearly, the regulators cannot be responsible for judging the *quality* of disclosures of corporate governance practices and the adequacy of explanations for non-compliance with guidelines. Rather, it should be the investors' responsibility to satisfy themselves about the quality of disclosures and adequacy of explanations, and, if necessary, to pressure companies to improve disclosures and explanations.

In other words, enhancing the implementation of the "comply or explain" requirement and raising corporate governance reporting and standards should be the joint responsibility of the regulators and the market. Professional and shareholder bodies such as the Singapore Institute of Directors (SID) and Securities Investors Association (Singapore) (SIAS) can also play important roles in enhancing the implementation of the "comply or explain" requirement.

Recommendation 1: Implementation of the "Comply or Explain" Requirement

a) The board of directors of companies should ensure that there is a process in place to ensure proper application of the "comply or explain" requirement and that corporate governance disclosures in annual report reflect corporate governance practices of the company.

[10] This is based on my discussions with the former Head of the Listing Authority in the U.K. The FRC did produce a report in 2006 reviewing the implementation of the Combined Code (2003), which included a survey of corporate governance practices and reporting by the FTSE350 companies.

b) Companies should use a checklist internally to ensure that key corporate governance practices relating to each principle are described, and confirming if the company complies with each guideline, and if not, to provide an explanation.
c) To aid investors in understanding the extent of application of the Code, companies should provide a positive confirmation statement at the beginning of the corporate governance report that the company has applied all the principles and complied with all the guidelines, or to identify deviations where this is not the case.
d) The committee responsible for reviewing the Code should provide clearer rationale for specific principles and guidelines so that the intent of these guidelines is properly understood by companies.
e) Regulators should lead initiatives to provide more practical guidance and education on implementing major principles and guidelines within the Code, including good corporate governance reporting practices, for example, through joint efforts between the regulators and the major professional bodies, disseminating guidance developed by regulators and professional bodies in other countries, and by organizing educational forums whereby good practices can be shared.
f) Shareholders should question companies at AGMs about their corporate governance practices as disclosed in the corporate governance report.
g) Regulators should lead initiatives to periodically review compliance with the Code and implementation of the "comply or explain" requirement, with a view to educating companies on how to improve the implementation of the Code, identifying challenges faced in implementation, and providing inputs into future revisions of the Code.

4. CORPORATE GOVERNANCE PRACTICES

In this chapter, I discuss key corporate governance practices of Mainboard and SESDAQ companies. Some of these have been discussed in the previous chapter when discussing the compliance with the "comply or explain" requirement for disclosures of corporate governance arrangements (refer to Annex 2). Note that companies which did not make the related disclosures are excluded from the statistics mentioned in this chapter. I also include some statistics on the corporate governance practices of foreign companies listed on the SGX. 82% (172) out of 210 foreign companies were listed on the Mainboard, and 18% (38) on the SESDAQ.

4.1. Board structure

Singapore boards are generally of reasonable size and do not suffer from the problem of overly large boards that exist in some other countries. The average (median) board size is 7 for Mainboard companies, with a range of 4 to 15. Of course, one can question whether a board with 4 directors will have sufficient diversity of perspectives and can meaningfully oversee management and safeguard the interests of the company. However, it is the issue of overly-large boards that is generally of more concern to investors and corporate governance advocates, and there is evidence of boards getting smaller in the U.S. and that institutional investors may be responsible for the decrease in board size.[11] For SESDAQ companies, the average is 6 board members, with a range of 3 to 10, while for foreign companies, the average is 6, with a range from 4 to 14.

For Mainboard companies, 95% have at least one-third of the board comprising independent directors, and 23% have at least half of the board comprising independent directors. For SESDAQ companies, 98% have at least one-third of independent directors, and 15% have at least half independent directors. Therefore, Mainboard and SESDAQ companies are comparable in terms of meeting the Code's recommendation for at least one-third of independent directors on the board. However, Mainboard companies are more likely to go beyond the Code's recommendation and have more independent directors. For foreign companies, the percentages are comparable, at 95% and 15% respectively.

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[11] Wu, Yilin, Honey, CalPERS shrunk the board, Working paper, Washington University, 2000.

Clearly, progress has been made in terms of percentage of independent directors on boards. It should, however, be noted that the U.K. code now recommends that at least half of the board (excluding the Chairman) be independent. In Australia, the code recommends a majority of independent directors, while a majority of independent directors is required in the U.S. for both NYSE and NASDAQ companies. Some major Singapore companies, such as Keppel Corporation, SingTel, SGX and SMRT, have a majority of independent directors on their boards. Half or a majority of independent directors on the board is likely to be the benchmark used by international investors, given the trends in the three major markets mentioned above. In one of the focus group discussions, there was considerable agreement amongst participants that the proportion of independent directors on the board need to be at least half in order for the independent directors to be effective. They believed that Singapore should move towards this higher percentage of independent directors in the near future. In the next chapter, the issue of the independent directors is discussed further.

59% of Mainboard and 59% of SESDAQ companies have a separate Chairman and CEO. It is similar for foreign companies, at 60%. In 64% of Mainboard companies, the Chairman is an executive director (i.e., either he is also the CEO or he is an Executive Chairman). For SESDAQ companies, that percentage is 63% and for foreign companies, it is 67%. It is estimated that 17% of the Chairmen of Mainboard companies are related to senior management or to another director on the board. For SESDAQ, that percentage is estimated to be much higher - 36%. For foreign companies, it is 14%. These are conservative estimates as relationships between the Chairman and senior management or other directors may not be disclosed in the annual report.[12] 14% of both Mainboard and SESDAQ companies have independent Chairmen, and about 9% of foreign companies have independent Chairmen.

Although progress has been made in terms of board independence from management, the

[12] Rule 704(7) SGX-ST Listing Manual does, however, require any family relationship between any director, CEO, general manager or executive officer of equivalent rank, with any director and/or substantial shareholder of the issuer or any its subsidiaries, to be announced when the former are appointed. Rule 704(9) requires the appointment of any person who is a relative of a director or chief executive office or substantial shareholder of the issuer to a managerial position in the issuer or any its subsidiaries to be announced.

above statistics on the percentages of companies with less than half of the board being independent directors, with an executive Chairman, and with a family relationship between the Chairman and senior management/other directors, raise questions about the adequacy of checks and balances at the top of many companies, especially SESDAQ companies. Often, management and the directors (including the Chairman) may also be significant shareholders. Where a company has only one-third of independent directors, a lack of separation between the Chairman and CEO, and a family relationship between the Chairman and senior management or other directors, control of the board generally rests with the executive management and/or controlling shareholders. Unfortunately, these features reflect the reality of our corporate landscape and they pose challenges in terms of whether independent directors are able to act independently in the best interests of the company and protecting the interests of all shareholders (including minority shareholders).

4.2. Board committees

Audit, nomination and remuneration committees have become very much part of the corporate governance structure of both SGX-listed companies.

4.2.1. Audit committee

Given that it is mandatory to have an AC, all companies have established them. Almost all Mainboard companies and foreign companies have ACs with an independent chairman (99.6%), and all SESDAQ companies have an independent Chairman for their ACs. On average, they have 3 members. For Mainboard companies, 54% have wholly independent ACs, and 45% have a majority of independent directors, with only about 1% having a minority of independent directors. For SESDAQ companies, 39% have wholly independent ACs, and the remaining 61% have a majority of independent directors. For foreign companies, the percentages are 49% and 51% respectively. Therefore, there is almost 100% compliance with the recommendation of the Code on the independence of the AC and its Chair. Issues related to accounting or financial management expertise and experience on the AC are discussed in further detail in the next chapter.

On average, ACs met 4 times a year for Mainboard companies and foreign companies, and 3 times a year for SESDAQ companies. It should be noted that most SESDAQ companies report only on a half-yearly basis, which may explain their lower frequency of audit committee meetings.

4.2.2. Nominating committee

94% of Mainboard, 96% of SESDAQ and 95% of foreign companies disclosed that they have nominating committees. 97% of Mainboard companies, 98% of SESDAQ companies and 98% of foreign companies which disclosed that they had a nominating committee indicated that the committee has an independent chairman. On average, nominating committees have 3 members. For Mainboard companies which reported having nominating committees, 15% reported having wholly independent nominating committees, 81% have nominating committees with a majority of independent directors, 4% have nominating committees with a minority of independent directors. For SESDAQ companies, those percentages were 17% 79% and 4% respectively and for foreign companies, they were 12%, 87% and 2% respectively. Acceptance of the Code's recommendation on nominating committees is high.

4.2.3. Remuneration committee

96% of Mainboard, 98% of SESDAQ and 98% of foreign companies disclosed that they have remuneration committees. 96% of each of the group of Mainboard, SESDAQ and foreign companies which disclosed that they had a remuneration committee indicated that the committee has an independent chairman On average, remuneration committees have 3 members. For Mainboard companies which reported having remuneration committees, 20% reported having wholly independent nominating committees, 74% have remuneration committees with a majority of independent directors, and 6% have nominating committees with a minority of independent directors. For SESDAQ companies, those percentages were 19% 75% and 6% respectively and for foreign companies, they were 22%, 72% and 6% respectively. Once again, acceptance of the Code's recommendation on remuneration committees is high.

4.3 Other board practices

4.3.1 Board meeting frequency and attendance

The median (mean) number of board meetings during the most recent financial year was 4 (4.5) for Mainboard companies and 3 (3.5) for SESDAQ companies. For foreign companies, the median (mean) is 4 (4). By international standards, the number of board meetings is relatively low. For example, according to the Spencer Stuart Board Index 2006, the median number of board meetings for a U.S. S&P 500 company is 8. Of course, boards and directors do have duties and responsibilities extending outside the board meetings, but major decisions are typically best made at board meetings after adequate discussion. On the positive side, board meetings tend to be well attended, with independent directors attending 92% of board meetings on average in Mainboard, SESDAQ and foreign companies.

4.3.2. Director recruitment process

The annual Singapore board of directors' surveys by the SID and its partners indicate that virtually all board members are recruited through personal contacts, the board members, or nominating committee members. The analysis of annual reports found that 84% of Mainboard and 99% of SESDAQ companies did not disclose the process for appointing new board members. Only 1% of Mainboard companies and only 1 SESDAQ company disclosed that they used an independent search. 8% of foreign companies disclosed the process for appointing new board members although only 1 of these companies disclosed the use of an independent search.

To a large extent, the current recruitment process for independent directors used by most companies reflects the mindset of wanting independent directors whom the controlling shareholder, directors and senior management are comfortable with, a point that was also emphasized in one of the focus group discussions. The problems associated with the current process of recruiting independent directors and suggestions for improvements are discussed in the next chapter.

4.3.2. Number of directorships held

Table 1 shows the number of directorships currently held by all the directors of the SGX-listed companies included in the individual directors' database created in this project. Out of the total of 3,544 individual directors, 599 (16.9%) held more than one directorship – whether executive, non-executive or independent - while 277 (7.8%) of them held three or more directorships. If one were to look at all the 3,544 directors, the average number of directorships held is only 1.4. However, closer examination of the 599 directors who held more than one directorship gives an average of 3.1 directorships held and the maximum number of directorships held by a single director is 13. Keeping in mind that these numbers only captures the number of directorships in Singapore-listed companies, some of these directors may also hold directorships in non-listed and/or overseas-listed companies. Female directors are less likely to have multiple directorships, with only 21 (7.2%) out of the 293 female directors having more than one directorship, while the maximum number of directorships held by female directors is six.

Table 1: Number of directorships held by individual directors

Number of Directorships	All	Male directors	Percentage male directors	Female directors	Percentage female directors
1	2945	2673	90.76%	272	9.24%
2	322	308	95.65%	14	4.35%
3	114	109	95.61%	5	4.39%
4	64	63	98.44%	1	1.56%
5	42	42	100.00%	0	0.00%
6	23	22	95.65%	1	4.35%
7	15	15	100.00%	0	0.00%
8	5	5	100.00%	0	0.00%
9	4	4	100.00%	0	0.00%
10	7	7	100.00%	0	0.00%
11	2	2	100.00%	0	0.00%
12	0	0	-	0	-
13	1	1	100.00%	0	0.00%
Total	**3544**	**3251**	**91.73%**	**293**	**8.27%**
Average number of directorships	1.36	1.38	-	1.11	-

There has been an ongoing debate about whether some of our independent directors sit on too many boards and, therefore, are not able to commit the time to their roles as independent directors. I examined the number of non-executive directorships (independent or non-independent) held by independent directors, focusing on those who hold a relatively large number of non-executive directorships.[13] Proponents of limits on directorships generally cite either 4 or 6 non-executive directorships as the limit and, therefore, I focus on those who hold more than 4 non-executive directorships. Table 2 shows the profile of these directors.

Table 2: Profile of independent directors (IDs) with more than 4 non-executive directorships

Number of Non-Executive Directorships	Number (% of all IDs)	% of full-time IDs*	% with university degree	% with MP/civil service experience**	% with accounting experience**	% with legal experience**
5 to 6	51 (4.0%)	77%	91%	23%	25%	23%
7 to 8	19 (1.5%)	87%	87%	32%	37%	21%
9 to 10	10 (0.85%)	70%	100%	70%	20%	10%
More than 10	3 (0.2%)	67%	67%	67%	33%	0%

*Full-time IDs are defined as those independent directors who do not hold other executive positions or have other regular paid employment. It includes those who are consultants, but does not include those who are executive directors of private or listed companies, or partners of legal, accounting or other firms.

** A director will often have different types of experience, e.g., both MP/civil service experience and legal experience. I first identify whether a director has MP/civil service experience, followed by accounting or legal experience. Therefore, a director who has MP/civil service experience and legal experience is classified as having MP/civil service experience.

Table 2 shows that about 2.5% of independent directors sit on more than 6 boards of SGX-listed companies, and about 6.5% sit on more than 4 of such boards. Even if we use 4 non-executive directorships as a benchmark, the percentage of independent directors sitting on many boards is relatively low. There are 13 independent directors (about 1% of all independent directors) who sit on 9 or more boards as a non-executive/independent director.

[13] Some independent directors are independent directors on some boards and non-independent non-executive directors on other boards. For table 2 and the accompanying discussion, I include both types of directorships held by these independent directors. I do not include executive directorships in companies held by independent directors, but those independent directors who hold such executive directorships are not considered full-time independent directors in table 2.

It can be seen that the directors who sit on many boards generally have accounting or legal experience, or are former or current Members of Parliament or civil servants. In fact, all 13 directors who hold 9 or more directorships have such backgrounds. These 13 directors sit on the boards of about 120 SGX-listed companies. A few of these companies have two of these directors.

Interestingly, even though one may tend to think of a director with many non-executive directorships as a full time director (sometimes called a "professional director") who has retired from a full-time job, a significant majority of independent directors who hold many directorships are actually not full-time directors in that sense. Many of them hold positions of current CEOs or managing directors of companies (although usually not listed companies), or are partners of accounting or law firms. These include 9 of the 13 independent directors holding 9 or more non-executive directorships. Of course, we do not know how much time commitment those apparently "full time" positions entail.

As an aside, there is no consensus about whether a full-time or "professional" independent director is good from a corporate governance standpoint. On the positive side, such a director may have more time to discharge his responsibilities and to keep himself updated on developments. On the negative side, such a director may also be overly-dependent on the fees from his directorships and may therefore be reluctant to do anything that may reduce his ability to get additional directorships or to be reappointed to boards. It also depends on whether the "professional" director is already financially independent and therefore not reliant on director fees as a primary source of income.

There have been calls to limit the number of directorships, perhaps to 6. In one of the focus group discussions, one independent director mentioned that the board of the SESDAQ company he is serving on limits the number of directorships to be held by each director to five. It has also been reported that more U.S. companies are limiting the number of directorships board members can hold.[14]

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[14] Joann S. Lublin, Multiple seats of power – Companies are cracking down on number of directorships board members can hold, Wall Street Journal, 23 January 2001, A12. In my discussions with some U.S. directors, they told me that they personally limit the number of directorships they will hold to 4 or 5. There is no legal or listing rule that limits the number of directorships in the U.S., and the threat of sanctions from regulators and

Imposing a limit on number of directorships is a simplistic solution to a complicated issue because sitting on fewer boards does not necessarily equate to greater commitment on the part of directors. In one of the focus group discussions, it was noted that some independent directors holding many directorships are very effective in the boardroom, while some who hold one independent directorship are less effective because of their lack of familiarity with their role. Further, it can been seen from Table 2 that if 6 is used as the limit, only 2.5% of independent directors currently exceed this limit, so it would mean that a rule limiting the number of directorships to this number is targeted at a relatively small number of directors.

In theory at least, there are some safeguards against directors over-stretching themselves, such as the Code's recommendations on the nominating committee's assessment of the time commitment of directors and the disclosure of number of directorships. However, as discussed earlier, the disclosure of other listed company directorships and major appointments held by each director – a recommended disclosure under the Code – is not properly followed by many companies. Rather than limiting the number of directorships, which is overly-prescriptive, more effort should be focused on ensuring that directorships and other key appointments held by directors are properly disclosed. Although this information must be included in the announcement of director appointments under the SGX rules, such information should also be disclosed in the annual report. Shareholders should be more pro-active in questioning companies that propose directors who already sit on many boards for election.

In Singapore, independent directors have not faced much real liability for breaching their duties because of the difficulty of enforcing director duties, especially the duty of care. In the recently reported corporate scandals involving listed companies, none of the independent directors were sanctioned, even though some investigation reports have been critical of the boards and board committees that these independent directors serve on. In Singapore, there is also a lack of shareholder action against directors who may have failed in their duties. Further, directors are not a "profession" like doctors or accountants where

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shareholders, plus reputation risk in the event of things going wrong, appear to be sufficient to cause independent directors to limit the number of directorships they hold.

breaches of professional standards can be punished by a professional body. However, recent legal cases, especially the NKF case and the Gaelic Inns vs. Patrick Lee PAC case, have undoubtedly raised the bar and raised awareness amongst many directors about their duties and liabilities.[15] This may make qualified individuals more cautious about accepting too many directorships. In some jurisdictions, sanctions such as disqualifications and fines have been introduced for breach of director duties, including gross negligence by independent directors, in order to increase the accountability of independent directors.

In my opinion, any decision to limit the number of directorships is best left to the nominating committees of companies, subject to scrutiny by the shareholders (including minority shareholders) of these companies. These safeguards, coupled with higher standards of accountability for directors, are, in my view, better than imposing arbitrary limits on number of directorships.

4.3.3. Tenure of independent directors

Corporate governance codes in countries such as the U.K. and Australia suggest that long tenure can be a threat to independence. Long tenures may also indicate a lack of renewal on boards. Six years (or two three-year terms) have been suggested as an appropriate term limit for independent directors, and some companies have adopted 6 years as a term limit, although this is usually not set in stone. The U.K. Code suggests 6 years as an appropriate limit for independent directors, and those serving more than 9 years should be re-elected annually by shareholders. In one of the focus group discussions, it was mentioned that retirement from the board after two or three terms is normal for boards in countries such as Australia. In Singapore, SGX has adopted a term limit of 4 to 6 years for its non-executive directors, although the term can be extended in certain cases.

Currently, the median (mean) tenure of independent directors serving on the boards of SGX-listed companies is 3 (4.3) years. In Table 3 below, independent directors are classified on the basis on their tenure on boards to examine whether long tenure of independent directors is a potential problem in Singapore. In 272 cases (13%), we could not determine the tenure because the company did not disclose the date of first appointment

[15] The Gaelic Inns vs Patrick Lee case highlights that directors cannot abdicate their duties by claiming that they have relied on professional advice.

(as recommended by the Code) or the actual number of years served by the independent director.

Table 3: Tenure of independent directors

Tenure (in years)	Number (%)	Cumulative %
Not disclosed	272 (13.16%)	13.16%
3 or less	1042 (50.41%)	63.57%
More than 3 to 6	391 (18.92%)	82.49%
More than 6 to 9	154 (7.45%)	89.94%
More than 9 to 12	84 (4.06%)	94.00%
More than 12 to 15	55 (2.66%)	96.66%
More than 15 to 18	28 (1.35%)	98.01%
More than 18	41 (1.98%)	100.00%

Including those independent directors for which we could not calculate tenure, about 18 percent of all independent directors have served more than 6 years and about 10 percent have served more than 9 years on their current boards. If cases where the tenure cannot be determined are excluded, the percentages are 20 percent and 11.6 percent respectively. About 2 percent of independent directors have served more than 18 years on their current boards. The maximum tenure of independent directors is 38 years, with 7 independent directors having served 30 years or more on the board.

Apart from some cases of excessively long tenure, the tenure of independent directors does not appear to be a cause for concern at the present time. However, it should be noted that the Code recommending one-third independent directors only became effective for annual reports for AGMs beginning January 2003, so many independent directors may have been appointed around that time and are still serving their first or second terms. Further, some companies claim that they have policies for renewal by citing the usual provision in articles for one-third of the board to be re-elected by shareholders every year. However, if the same directors are continually proposed for re-election, this does not constitute a term limit or board renewal policy and long tenure can become an issue for these boards. Trends in tenure should be kept under review and shareholders should scrutinize the tenure of independent directors, as many boards have not adopted formal term limits or renewal policies.

4.3.4. Orientation and training of directors

41% of Mainboard companies, 47% of SESDAQ companies and 42% of foreign companies disclosed that they had a formal orientation (induction) program for directors. However, very few gave details about these programs, so we do not know whether there is indeed proper orientation for new directors for many companies. Proper induction of new directors, for example, by explaining key business and governance practices of the company, is important to help them quickly settle into their roles and contribute to the company.

In terms of training, 68% of Mainboard companies, 81% of SESDAQ companies and 71% of foreign companies did not disclose any training. Only 5% of Mainboard companies, 4% of SESDAQ companies and 3% of foreign companies provided any details about type of training given to directors. Training of directors is examined in more detail in the next chapter.

4.4. Corporate governance standards of SESDAQ companies

From the analyses reported in this chapter, it is clear that SESDAQ companies are comparable to Mainboard companies in terms of having at least one-third of independent directors; separation of Chairman and CEO; and establishment of the various boards committees and the independence of these board committees. SESDAQ companies, however, have lower independence on their boards on average because family relationships among the Chairman, other directors, and senior management are more common. This is due to the fact that these companies are more likely to be controlled by families or management.

The closer connections among controlling shareholders, the board of directors, and senior management for many SESDAQ companies also raise concerns about the true independence of independent directors on SESDAQ companies and their ability to act independently.

SESDAQ boards also tend to be slightly less active in terms of frequency of board and AC meetings and disclosure of meeting frequency and attendance, have poorer disclosures of internal controls and risk management, and poorer disclosures of remuneration policies and levels.

4.5. Corporate governance standards of foreign companies

The other group of companies for which there have been concerns about corporate governance is foreign companies. The SGX defines foreign companies on the basis of both the ownership and the principal place of revenue of the company. These companies have to comply with SGX continuing listing requirements (unlike secondary listings). Our analyses show that corporate governance disclosures and reported adoption of recommended corporate governance practices for foreign companies are generally comparable to local Mainboard companies.

Foreign companies listing here, however, face a number of additional challenges which may affect the quality of their corporate governance. First, they face more problems in recruiting good independent directors for a number of reasons, such as lack of familiarity with potential director candidates. Anecdotal evidence suggests that they are heavily reliant on intermediaries involved in the IPO process (e.g., IPO sponsor or reporting accountants). In the focus group discussions, some experienced independent directors mentioned that they specifically avoid serving as independent directors for foreign companies. Such sentiments mean that foreign companies probably have less access to experienced independent directors, when arguably, they need good independent directors even more, especially where the foreign directors and senior management themselves lack knowledge about corporate governance, contemporary business management practices, and local rules and regulations. . Further, foreign companies often look for independent directors who can communicate well in the the working language of the board and management, which may not be English. This may further limit the pool of independent directors for such companies.

Second, foreign companies also face lack of knowledge about local market practices and sometimes cite this lack of knowledge for disclosure or other breaches. The SGX has recognized the importance for such companies to have independent directors who are resident in Singapore and to have access to knowledge about local rules and regulations.

Third, if the foreign directors are not conversant in English, training will have to be offered in other languages and it is not easy to develop and offer training in these languages that is comparable in quality and depth as those in English.

There is no easy solution to the problems faced by foreign companies in recruiting good independent directors. Good independent directors are highly selective about boards they sit on and do their due diligence before accepting an invitation to join the board. It is not a bad thing for independent directors to shun companies which are perceived to have low corporate governance standards because this may force companies to improve their governance. In fact, anecdotal evidence suggests that the current problem is that even companies with questionable corporate governance practices are *always* able to find someone to act as independent director. Hopefully, improved scrutiny of foreign companies seeking listing and increased responsibility which has been placed on sponsors will lead to an improvement in quality of foreign companies listed here, and good independent directors will feel more comfortable about serving on boards of these companies.

5. KEY CORPORATE GOVERNANCE ISSUES AND RECOMMENDATIONS

In this chapter, I discuss further current key issues in the corporate governance practices of companies. I also make recommendations for addressing certain areas of concern.

5.1. Independent directors

Issues relating to independent directors are probably the major concern, not only in Singapore but the region. While there is some anecdotal evidence of an improvement in willingness of directors to act independently, there remains considerable skepticism in the market about whether many independent directors really do exercise independent judgement and act in the interest of all shareholders. It can be commonly observed that independent director appointments are often tied to the controlling shareholder, and a change in controlling shareholder often results in changes in independent directors. A controlling shareholder with substantially less than majority ownership can often control the entire board, including the appointment of the independent directors. This raises questions as to whether nominating committees are in fact able to play an effective role in appointing good independent director candidates. It also raises concerns as to the ability of independent directors, especially those in companies controlled by families or management, to act in the interests of the company and all shareholders, including minority shareholders. There are a number of issues relating to independent directors, which are discussed in this section.

5.1.1. The process by which "independent directors" are appointed onto boards (the "demand side").

The current process of appointing independent directors raises issues such as the quality and true independence of independent directors, lack of board renewal, long tenure, and excessive number of directorships held by some directors. In one of the focus group discussions, a participant mentioned that the current process for recruiting independent directors created "inter-dependent", rather than independent, directors. Other means for recruiting independent directors, which are more widely used in developed markets such as U.K., U.S. and Australia, were discussed by the focus group. These include the use of recruitment firms or advertisements.

However, some focus group participants were of the view that these alternative means may not necessarily result in better independent directors or boards, as candidates who respond to advertisements may not be of high quality, recruitment firms may merely substitute one pool of directors for another pool which is "on their books", and appointing independent directors who are not known to the other directors may lead to a divisive board. Some argued that the current process of appointing independent directors does not necessarily mean that those who are appointed are "cronies" of the controlling shareholder, management or the other directors, and who are unqualified or do not take their responsibilities seriously.

Some may argue that it is the ends that matters, not the means, and that as long as good independent directors are appointed onto boards, the process by which they are appointed does not matter. However, the problems created by the current processes of appointing directors which are mentioned above are real. Further, good independent director candidates who are not part of the "network" remain untapped, including many who have worked in senior positions in MNCs, while some listed SMEs continue to struggle to find good independent directors.

In my view, there is really no reason why the recruitment of independent directors should be different from the way executives are recruited, using proper recruitment processes. The need for the board to be able to work together is not much different from the need for executives to be able to work together as a team.

Using more open searches for independent directors allow companies to tap into a wider pool of directors. Such searches can generate a shortlist of independent director candidates and the nominating committee should then go through a formal process of evaluating these director candidates, including assessing whether these candidates are able to work with other directors. As some independent directors in one of the focus group discussions mentioned, such a process is common in companies in more developed markets, such as Australia, and there were focus group participants who were in fact recruited onto Australian boards through recruitment firms.

While drastic rule changes in the way independent directors are elected have been proposed, such as cumulative voting for directors or having minority shareholders vote for one or more independent directors, they have not gained much acceptance in most jurisdictions. What can we do to improve the current process of recruiting independent directors, in the absence of drastic rule changes?

We need a mindset change on the part of controlling shareholders, management and existing directors to accept more open processes for recruiting independent directors. Independent directors, especially those currently serving on nominating committees, can play a key role in promoting such mindset changes. They can educate controlling shareholders on the benefits of recruiting from a bigger pool of candidates and having independent directors who may not be known to them, but who can bring different viewpoints and make other valuable contributions to the board and company. However, inertia and vested interests mean that changes in recruitment practices are likely to occur very slowly, if left purely to controlling shareholders and incumbent directors. Therefore, more pressure needs to be exerted by minority shareholders, including institutional shareholders, on companies to improve the director appointment process and to consider alternative director candidates. More questions should be asked in investor meetings with companies and at AGMs about the choice of independent director candidates. Institutional shareholders should try to understand better the types of skills and experience sought by the board in their dialogue with companies, and they can play a more proactive role in proposing credible candidates who meet the skills and experience sought.

We should look at how the process of recruiting independent directors at the IPO stage can be improved, as the process of appointing independent directors tends to be self-perpetuating given that future independent directors are often proposed by incumbent independent directors serving on nominating committees (although they have to be acceptable to the controlling shareholders). Starting off on the right footing at the IPO stage is likely to be critical. At the IPO stage, venture capital and other institutional investors may have more leverage over the appointment of independent directors, as their support may be important to ensure a successful IPO. If these investors take a more active interest in the choice of independent directors, it can help improve the quality of independent directors.

5.1.2. The pool from which "independent directors" are drawn (the "supply side").

There has been much debate about whether there is a shortage of qualified independent directors in Singapore. Based on our analysis, there are currently about 1,250 independent directors sitting on the boards of our SGX-listed companies. As discussed earlier, some of these directors sit on many boards, with a maximum of 13 boards of SGX-listed companies. Given the relatively small number of independent directors needed, there is no reason why there would be a shortage of independent director candidates in Singapore. In one of the focus group discussions, there was a view that the increased risks associated with being an independent director meant that some who are qualified are refusing to take on such appointments. However, participants also agreed that there are qualified independent director candidates who are willing to accept independent directorships, but who remain untapped.

In the previous section, we discussed problems on the demand side, which has largely to do with the current processes used for recruiting independent directors. Unless these processes can be improved, any initiative to improve the supply of independent directors is likely to have minimal impact as new director candidates are unlikely to be tapped on.

Nevertheless, several jurisdictions have attempted to improve the supply side, by developing directors' registers which help individuals to find board positions, and companies to source for director candidates. For example, the Australian Institute of Corporate Directors (AICD) provides such a service to companies and its members. Under the AICD directors' register service, AICD members pay a small annual fee to register their profile, by providing a resume and answering five profile questions. The profile can be updated online anytime. The profile is then made available to companies, AICD members and recruitment firms looking for director candidates. To protect privacy, searches of the register are done by AICD staff based on online requests submitted by companies, AICD members or recruitment firms, including a position description providing a summary of the desired background of the ideal candidate, the duties and responsibilities of the position and the skills and capabilities required. While the actual effectiveness of this register in placing directors is unknown, the AICD reported that there were 91 searches of the register for the quarter from July to September 2006. The Institute of Chartered Accountants of England and Wales (ICAEW) has also developed such a facility in the U.K., as has the Malaysian Institute of Corporate Governance (MICG) in

Malaysia. These registers can be helpful to nominating committees for creating a shortlist of potential candidates, who can then be subject to a due diligence process.

I do not believe it is very costly to develop a directors' register, which can be made accessible to companies at low cost or even free of charge. Such a register is particularly useful for individuals who are less well-known but who are looking for board positions.

The SID did introduce such a service a few years ago, but it found that very few companies were using it. Based on my understanding, the SID service is not designed around an online service using a searchable register, unlike the AICD service. The SID service is based largely on individuals submitting paper requests for inclusion in the register and companies submitting email or written requests for director candidates. Without a searchable register, there is the issue of how the SID can objectively match the request of the company with the profiles submitted by the individuals, and therefore, whether companies are provided with the names of candidates who best match their needs. In one of the focus group discussions, some independent directors mentioned that they did not submit their names when the SID publicised this initiative and expressed a reluctance to be on such a register because of concerns about the quality of candidates who put themselves onto such a register. Despite these reservations, a service modeled after the AICD directors' register may be useful for helping less well-known individuals find board positions, and helping smaller companies which face more difficulty in finding director candidates.

Another way to improve the supply of directors is to create a more exclusive register. For example, an institution, private firm or professional body, supported by a regulator, can identify individuals who have the necessary qualities to be good independent directors and invite these individuals to make themselves available for independent director appointments. Individuals who are invited to join the register can include retired partners of accounting and law firms, recently-retired senior executives, those who have held senior positions in public sector organizations, and others who are suitably qualified. Professional bodies such as the Singapore Law Society and the Institute of Certified Public Accountants of Singapore (ICPAS) can be approached to assist in identifying suitable candidates for inclusion. This may help overcome the reluctance of some independent directors to submit their names for a public register because they want to avoid the impression that they are aggressively seeking directorships and they prefer to be selective about accepting directorships. A service which is based on an invitation to join, which is supported by a regulator, may provide more prestige and make individuals more willing to be on the register. However, the regulator should not be placed in a position of having to endorse independent directors and, therefore, such an approach needs to be carefully studied and managed.

5.1.3. The approach to assessing "independence"

The Code defines an "independent" director as "one who has no relationship with the Company, its related companies 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." In principle, this definition is sufficiently broad to cover a wide range of situations or relationships which may impair the actual or perceived ability of a director to act independently.

Guideline 2.1 of the Code provides examples of relationships that may affect the director's independence and these are not intended to be exhaustive. The spirit of the Code is that the nominating committee will use the examples in guideline 2.1 to help it in assessing the independence of directors but it should do this as part of the wider process of considering whether a director is able to, and in fact does, act independently. In my discussions with some independent directors, this is precisely what they have done because they have on occasions challenged the independence of a director even though he may not be caught by the relationships specified under guideline 2.1.

The Code also allows the nominating committee or the board to provide "waivers of independence" in cases where an independent director does not meet the criteria for independence under guideline 2.1. There are instances – although this seems to have declined – of such waivers. An example of a waiver of independence found in the annual report of an SGX-listed company is as follows:

> *"…[Mr. XXX and Mr. YYY are considered as independent directors] because the Nominating Committee considers Mr. XXX and Mr. YYY to be persons of high integrity and is of the view that, going by their conduct on the board thus far, they will be able to maintain independence and exercise*

> *judgement with a view to the best interests of the company at all times in their discharge of their respective duties as directors."*

Such waivers of independence effectively mean that virtually any director can be considered an independent director as long as the nominating committee or the board says so. In the Singapore Board of Directors Survey 2005, which covered 167 companies, 16% indicated that directors can have one or more of the relationships specified in guideline 2.1 and still be considered independent, if the nominating committee is satisfied that the director is able to act independently.

Guideline 2.1 recognizes that the mere existence of one of the specified relationships will not immediately cause a director not to be able to act independently because, ultimately, independent directors should be independent in judgement and character. However, some jurisdictions do not give the board/nominating committee complete discretion in giving such "waivers of independence" because waivers can allow companies to label almost any director as an "independent director". As the definition of "independent director" in the Code suggests, any relationship which could reasonably be perceived to interfere with the exercise of the director's independent business judgement should be considered when evaluating the independence of an independent director.

The approach to determining whether a director is independent in Singapore is similar to U.K. and Australia, with examples of relationships which may affect director independence being included in the Code and the determination of independence ultimately being left to the nominating committee, subject to disclosure and explanation. However, given the more active institutional investors in U.K. and Australia, companies there are likely to be relatively cautious about appointing independent directors who do not meet the recommended criteria for independence in the Code.. In contrast, in Hong Kong and Malaysia (and the U.S.), the definition of independence and relationships which may affect director independence are in the listing rules. This puts a greater onus on the company to carefully consider whether a director is independent when he fails to meet the independence guidelines. In Hong Kong, the listing rules require the issuer to disclose the reasons why an independent director is considered independent if he has failed to meet any of the independence guidelines in the listing rules. The issuer must also confirm whether it has received from each of its independent directors an annual confirmation of his independence according to the independence guidelines and whether the issuer still considers the director to be independent.

In the focus group discussions, the issue of independent directors was raised by participants. In particular, strong concerns were expressed about independent directors who were considered independent merely by virtue of not being caught by the types of relationships specified in guideline 2.1, even though there were real concerns about their ability to act independently. This is consistent with discussions I have had with other directors and industry professionals, and suggests that it is not uncommon for companies to treat the examples given in guideline 2.1 as if they are exhaustive and use them to “box-tick” the independence of the directors. Some focus group participants cited the situation of individuals being appointed as independent directors, even though they or their firm provided professional services, such as legal services, to the company. Interestingly, the problem of legal advisers serving as independent directors was raised by some independent directors who are themselves lawyers. Some participants said that they had personally experienced situations of professional advisers serving as independent directors and, in their opinion, the ability of the “independent director” to exercise independent judgement is affected. The problem of being placed in a position of having to evaluate the quality of the professional services provided by the director himself or his firm was also mentioned Some participants also mentioned the considerable flexibility under the Code for nominating committees to consider a director as independent even in cases where the value of professional services provided by the director’s firm exceeded $200,000. Some felt that the issue of dollar value of professional services provided should not even matter – in other words, independence is compromised as long as the director or his firm provides professional services. It was also noted by some participants that auditors are prohibited under auditor independence rules from serving on the boards of their clients as independent directors, but that the same rules do not apply to other professional service providers. In Malaysia, there is no dollar threshold and a professional adviser cannot be called an independent director. Similarly, the HK Exchange has stated that any lawyer providing legal services to the company cannot be considered to be an independent director. In both those countries, the professional adviser can serve on the board as a non-executive director, but not as an independent director. There are other best practice guidelines – like one published by the New Zealand Institute of Directors – that also state that such a director should not be considered an independent director.

There was considerable agreement among the participants in the focus group which deliberated this issue extensively that this is an area which requires urgent attention.

5.1.4. Resignations of independent directors

In North America and the U.K., there has been some discussion about encouraging independent directors who are resigning because of serious disagreement with the board or concerns about the governance of a company to do so "noisily". At least in the U.S., there have been fairly public resignations by independent directors over disagreements with the board.

An NUS study of director resignations found that there were a total of 488 director resignations for SGX companies over the two year period from 1 January 2003 to 31 December 2004, almost equally split amongst executive directors (35%), non-executive directors (33%) and independent directors (32%).[16] In about two-third of the cases, no reason was given, and in a few cases "personal reasons" were given. There have been cases in Singapore where independent directors have gone public with their concerns about corporate governance of companies they serve on, prior to their resignation, although such cases are rare. A recent example is Automated Touchstone Machines (ATM), where the two independent directors wrote to the SGX expressing their concerns over 'outstanding significant internal control and audit issues' raised by the external auditors.

When an independent director has exhausted all avenues to properly discharge his duties on the board, resigning may be the only viable option left to him. However, when an independent director resigns from the board at the first sign of trouble, it may arguably be a breach of a director's duties to act in the best interests of the company.[17]

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[16] Lim Wei Ling, Why Do Directors Resign?, Academic Exercise, 2005/6 (co-supervised by A/P Mak Yuen Teen).

[17] The CEO of the Securities and Futures Commission in H.K., in a speech given on 14 October 2006 titled "The Role of Independent Directors in Improving Corporate Governance" expressed his disapproval of independent directors resigning from companies just prior to the implosion of a scandal.

Whether resignation is the appropriate course of action for a director, it seems that more can be done about making more information available about the resignation of a director, especially in the case of an independent director. However, there are a number of reasons why a director may be reluctant to resign "noisily". First, the director may not wish to publicly give the impression that he is not a "team player", as this may affect his ability to get other directorships. Second, there may be fear of legal liability. From the point of view of the interests of the company, "noisy" resignations have their pros and cons.

In my discussions with several independent directors, they felt that independent directors should be encouraged to privately communicate concerns which have triggered their resignation, such as to SGX. In one of the focus group discussions, some participants suggested that SGX should ask independent directors who resign for their reasons. Although it was acknowledged that many may not want to provide reasons, some may be willing to do so if asked by SGX.

As a resignation, especially of an independent director, may be an indication that the director has concerns about the company or has a fundamental disagreement with the board or its management, this information is relevant to investors. As such, the SGX should consider putting announcements of resignations of directors as a separate category of announcements on the SGX website (currently, the majority are included under "Miscellaneous" and many are included with other news announcements).[18] More clearly highlighting announcements of director resignations may also make them more informative, as companies with more routine resignations (such as directors resigning because of too many commitments or for health reasons) may provide more information to separate themselves from those resignations which are caused by board disagreements or corporate governance concerns about the company. Companies should be encouraged to state more clearly the reasons for director resignations.

Shareholders can also do more in querying companies about director resignations, especially if adequate reasons are not provided by companies or where the resignations appear to be very selective. For example, in cases where personal or health reasons are given for director resignations, they can examine whether the directors also resign from

[18] There is a separate category for "Appointments" but not for "Resignations".

other boards or join new boards after resigning from the previous boards. This can be facilitated if resignations are made more transparent on SGXNET.

Recommendation 2: Independence , Effectiveness and Pool of Independent Directors

a) Investors, including institutional investors at the IPO stage, should apply more pressure on companies to adopt more open processes for recruiting independent directors and be more proactive in proposing independent director candidates and asking questions about the choice of independent director candidates.

b) Regulators should consider supporting the creation of an online directors' register to increase the pool of independent directors and to assist companies in finding independent director candidates.

c) Nominating committees should adopt a more holistic approach, consistent with the spirit of Guideline 2.1, in assessing the independence of independent directors. They should consider the relationships specified in Guideline 2.1 as examples of relationships that may affect the actual or perceived independence of directors and be more stringent in assessing the independence of directors who are also professional advisers for the company.

d) The SGX should have a separate category for announcements of "resignations of directors and key officers" on the SGXNET. Companies should state more clearly the reasons for director resignations.

e) Independent directors who are resigning should be encouraged to privately communicate any concerns to the SGX or other regulators.

5.2. Director and executive remuneration

Remuneration is one of the four key areas in the Singapore Code of Corporate Governance. Globally, executive and director remuneration is one of the top issues which shareholders, especially institutional shareholders, are unhappy about – as shown by the frequency of executive remuneration being the subject of shareholder proposals in the developed markets. Although remuneration is not an issue that has received a lot of shareholder attention in Singapore up to now, it may become an area of concern, especially to foreign institutional investors, if remuneration policies and levels amongst Singapore-listed companies remain opaque. Ironically, concerns with remuneration may grow as more companies introduce performance-based remuneration, even though performance-based remuneration is strongly advocated in corporate governance codes.

This is because performance-based remuneration creates greater volatility in pay – and, therefore, potentially more upside in pay. Poorly-designed performance-based remuneration may accentuate the upside while protecting the downside for executives and directors, something which is frowned upon by investors.

5.2.1. Disclosure of director and executive remuneration

Principle 9 of the Revised Code recommends that the company should provide clear disclosure of remuneration policy, level and mix of remuneration in the annual report to enable investors to understand the link between remuneration paid to directors and key executives, and performance. Guideline 9.1 recommends that, companies should, as best practice, disclose in the annual report, the remuneration of each individual director and at least 5 top key executives (who are not directors). It also encourages, as best practice, to fully disclosure the remuneration of each individual director. Guideline 9.2 recommends that the annual 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, with 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 9.3 recommends the disclosure, on a no-name basis with clear indication of which director or the CEO the employee is related to, remuneration details of employees who are immediate family members of a director or the CEO whose remuneration exceeds S$150,000 during the year. The Code requirements go beyond the minimum requirements in the SGX listing rules, which currently specify disclosure of remuneration in three bands of "below $250,000", "$250,000 to below $500,000", and $500,000 and above for the current year and previous year.

There are some Singapore companies that have adopted high standards of disclosure of director and executive remuneration, sometimes exceeding the Code's recommendations. An example is SingTel, which provides comprehensive disclosures of the total remuneration and breakdown of remuneration for each director and top 5 executives, and its remuneration policies for directors and senior executives, including information such as how different components of remuneration are determined, performance measures, and vesting conditions. Another example of good disclosure of director and executive remuneration is Autron Corporation, as shown in Annex 4.

As shown in Annex 2, while 73% of Mainboard companies comply with or exceed the Code's recommendation that remuneration be disclosed in bands of $250k with no upper limit, the remaining 27% of these companies only specify in bands according to chapter 12 of the SGX-ST Listing Manual, which include a top remuneration band of $500k and above. Only 6% of Mainboard companies follow the Code's encouragement to disclose the exact remuneration for all directors on an individual basis. For SESDAQ companies, only 8% of companies comply with or exceed the recommendation that remuneration be disclosed in bands of $250k (with no upper limit). Around 92% only specify in bands according to the SGX listing rules. It is of course possible that for many of these relatively small companies, remuneration does not go much higher than $500k. However, as many of these companies have families/senior management who are controlling shareholders, there is also the risk of hidden inflated remuneration. Around 2% of SESDAQ companies disclose exact remuneration for all directors on an individual basis. In the case of disclosure of remuneration of the top 5 executives, only 3% of Mainboard and no SESDAQ companies disclose the exact remuneration of its top 5 executives. Therefore, it can be seen that even though the Code encourages the disclosure of individual director remuneration as best practice, few companies have gone beyond band disclosures.

In terms of disclosure of individual components of fees and remuneration, 21% of Mainboard companies did not disclose these components at least in percentage terms as recommended by the Code. Around 6% of Mainboard companies exceeded the Code's recommendation by providing a breakdown in dollar terms. For SESDAQ companies, 11% did not disclose individual components of remuneration at least in percentage terms, while 3% provided a breakdown in dollar terms.

Figure 3 provides an example of poor disclosure of remuneration of directors and top 5 executives by an SGX-listed company:

Figure 3: Disclosure of director and executive remuneration by an SGX-listed company

Remuneration band	No. of directors	No. of executives
Band A	3	5
Band B	1	0
Band C	1	0

Band A means between $0 and $249,999
Band B means between $250,000 and $499,999
Band C means above $500,000

In the above example , the director who is being paid more than $500,000 can be paid any amount, and shareholders would have no idea how much this director is being paid. In this situation, it is likely that the director earning more than $500,000 is the CEO. He could also be a controlling shareholder, who is able to control the appointment of independent directors onto the board, including those independent directors who serve on the remuneration committee determining his pay. His pay is not subject to interested person transaction (IPT) rules because executive remuneration and directors' fees and remuneration are not covered by these rules. Under the Companies Act in Singapore, only total emoluments of directors, excluding salary, have to be disclosed to and approved by shareholders – not the amounts for individual directors. Controlling shareholders are allowed to vote to approve the total emoluments, even if they are themselves directors and therefore recipients of the emoluments. Executive remuneration does not have to be approved by shareholders at all, as executive remuneration is generally a matter for the board of directors. Therefore, there are few safeguards against excessive executive or director remuneration if controlling shareholders, their relatives or associates are also directors and/or management of the company.

There is, therefore, a risk of excessive director and executive remuneration amongst some Singapore companies, especially companies which are controlled by families and managers and which have poor disclosure of remuneration.

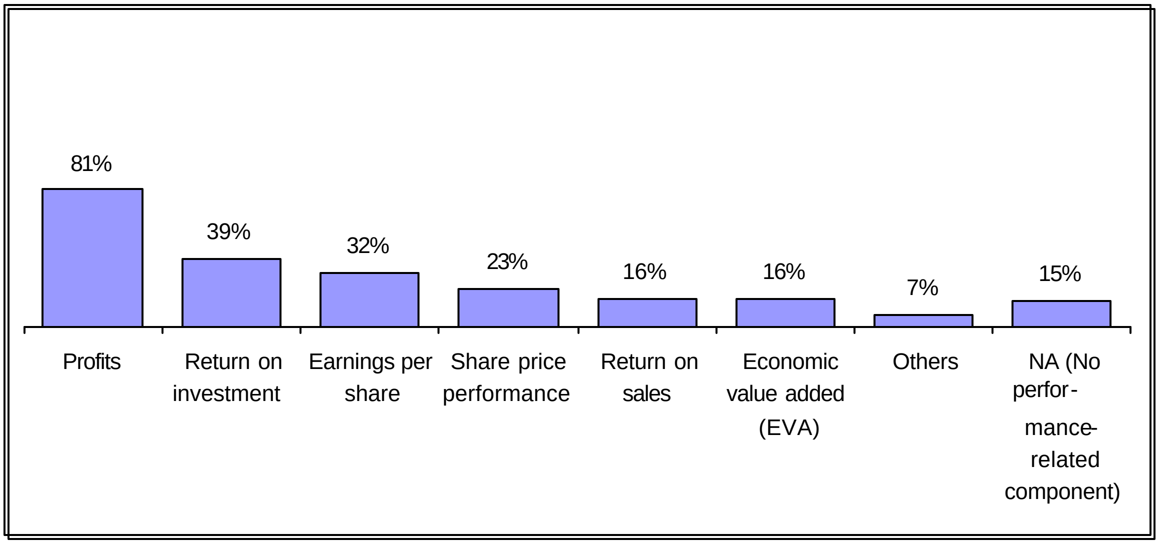
Without changing the listing rules on IPT or rules governing disclosure of director and executive remuneration, what can be done to enhance transparency in remuneration, especially in situations where controlling shareholders are also directors or senior executives? There are two possibilities. First, minority shareholders making up 10% of all shareholders or owning 5% of the voting shares can use s164A of the Companies Act to requisition for audited disclosures of the individual directors' emoluments, including salaries. If more minority shareholders take collective action under s164A, it may lead to greater acceptance of full disclosure of individual directors' emoluments and benefits, and lead more companies to be more open with disclosure. s164A, however, only covers directors' remuneration, but not remuneration of executives who are not directors.

Second, under rule 704(11) of the SGX-ST Listing Manual, SGX may require an issuer to provide additional information on any person occupying a managerial position in the issuer of any of its principal subsidiaries who is a relative of a director, CEO or substantial shareholder of the issuer. Additional information can include remuneration and changes to the remuneration package. Therefore, under this rule, the SGX can require additional disclosure of remuneration for executives of companies controlled by families or management, if they are related to a director, CEO or a substantial shareholder.

Disclosure of the procedure for setting remuneration and the performance measures to which performance-based remuneration is linked can also be improved For Mainboard companies, 74% did not disclose the procedure for setting remuneration and 73% did not disclose performance measures used. For SESDAQ companies, 97% did not disclose the procedure for setting remuneration and another 70% did not disclose the performance measures used.

Figure 2 shows the performance measures used for CEOs and executive directors, based on 165 companies which responded to the Singapore Board of Directors Survey 2005. Profit is by far the most common performance measure used amongst Singapore companies, even though return-type measures and total shareholder return are arguably superior measures of performance as they are more closely linked to shareholder value creation.

Figure 2: Criteria used to measure the performance of CEOs and executive directors



5.2.2. Balance between short-term and long-term incentives

The Singapore Code, like many other codes, encourages the use of long-term incentives as part of performance-based remuneration. The use of long-term incentives is consistent with the objective of increasing long-term shareholder value. While Singapore companies have increasingly moved towards greater use of performance-based remuneration, there is evidence that the use of long-term incentives remains relatively low. Based on 2005/6 annual reports, it is estimated that only 31% of SGX-listed companies reported either having bonuses which are payable after at least 12 months and/or having share options or shares which vest after more than 12 months.

In my informal discussions with some human resource directors, it appears that there is some difficulty in getting 'buy-in' from executive directors and senior management for longer-term incentives. If short-term incentives are already well-entrenched within a company, introducing long-term incentives may take considerable time as executive directors and senior management are often reluctant to substitute longer-term incentives for short-term incentives, unless the expected value of the long-term incentives far exceed the expected value of the short-term incentives. Long-term incentives can generally be introduced as remuneration is increased over time, and more of the increase is given through long-term incentives rather than short-term incentives. More companies should be encouraged to introduce more long-term incentives, even if it may take time.

However, more can be done to achieve a better balance between short-term incentives and long-term incentives. The strong emphasis on short-term incentives often starts prior to the IPO, when service agreements are put in place. At that time, the major pre-IPO shareholders usually have a major influence on the terms of the service agreement, although the IPO sponsor would also typically provide inputs. The major pre-IPO shareholders also commonly include the senior management whose remuneration is the subject of the service agreement. Based on a limited review of IPO prospectuses, it appears that virtually all companies going public in Singapore have service agreements for the executive directors which include a short-term profit sharing scheme (usually at an increasing rate as profit increases, without a limit).[19] In fact, these service agreements look remarkably similar to each other. Almost always, this short-term incentive plan provides the only performance-based remuneration applicable to executive directors. Figure 4 shows an example of a typical service agreement which is found in most IPO prospectuses.

Figure 4: Example of a service agreement in an IPO prospectus

Pursuant to his Service Agreement, the Appointee will receive an annual salary of $480,000.00. The annual salary of the Appointee shall be reviewed annually and shall be adjusted by an amount as may be determined by our Remuneration Committee. The Appointee, who has an interest in the subject matter, will abstain from the participation in the review and from making any recommendation in relation to himself. The Appointee is also entitled to an annual wage supplement equivalent to three month's salary for every 12 months of service. In addition, Mr X is also entitled to a share of our profits, to be calculated as follows:-

Our Company's profits before tax (based on audited consolidated profits of our Company before profit sharing and tax and after minority interest and extraordinary items) $	Percentage of profits (per year)
First $12 million (Up to S$12 million)	0%
Next S$8 (More than S$12 million and up to S$20 million)	7%
Next S$15 million (More than S$20 million and up to S$35 million)	9%
Thereafter (More than S$35 million)	10%

[19] A random review of 10 IPO prospectuses shows that all have such service agreements.

Such a heavy reliance on short-term incentives encourages a short-term focus, and increases the risks of fraud or creative accounting to boost short-term profits. Once such a service agreement is put in place, it is also difficult to introduce long-term incentives later, unless they are given as additional remuneration.

I believe IPO sponsors have an important role to play in promoting the use of longer-term incentives at the pre-IPO stage. Profit sharing is not necessarily congruent with shareholder wealth creation, and an exclusive reliance on short-term incentives for performance-based remuneration is inconsistent with good corporate governance. Outside investors, including venture capital and other institutional investors, may also be able to have some influence on the terms of the service agreement, especially if their support is critical to the success of the IPO. They need to bear in mind that their ability to influence the terms of the service agreement is likely to be much more limited once the company has gone public, and especially if there is a controlling shareholder, as is often the case.

5.2.3. Design and implementation of share-based remuneration

The use of share-based remuneration is common amongst Mainboard companies, with 28% using share options, 16% using shares, and 29% using both shares and share options. For SESDAQ companies, 31% used share options and 1% used both shares and share options. As noted earlier, less than one-third of SGX-listed companies reported either having bonuses which are payable after at least 12 months and/or having share options or shares which vest after more than 12 months. The disclosure of vesting periods for shares and share options is also poor. While share-based remuneration is intended to be long-term incentives, disclosures in annual reports and anecdotal evidence suggest that they are often short-term incentives, given the short vesting periods and the absence of requirements to hold on to the shares after exercise/vesting.

There are other issues associated with the implementation of share-based remuneration, particularly in the disclosure of share option grants. Under our existing rules in the Companies Act and the listing manual, option grants may not be disclosed in a timely fashion, which gives rise to the possibility of opportunism in the timing of option grants.[20]

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[20] This issue is discussed more fully in the article "A look at the timing of share options" by Mak Yuen Teen and Beh ShaoYong, published in the Business Times, June 7, 2006.

The latest consultation paper on proposed amendments to the listing rules issued by the SGX on 10 May 2007 contains a proposal to require the issuer to make an immediate announcement when employee share options are granted.

Companies wishing to follow good practices in the design and implementation of share-based remuneration should pay attention to the following factors:

(a) include total shareholder return as a vesting condition, at least for some of the shares
(b) include challenging performance targets for a significant portion of the shares
(c) benchmark the performance targets at least partly against peer companies to remove "windfall" gains/losses
(d) include some medium- to long-term (three to five years') targets
(e) announce the remuneration scheme and the grant of shares or options promptly
(f) explain the rationale, eligibility and terms of the scheme clearly
(g) explain the potential dilution and P&L impact of the scheme

5.2.4. Non-executive directors' fees

Closely linked to the issue of the supply of independent directors is the issue of fees. Table 4 shows the distribution of basic fees for non-executive directors by turnover of companies, based on the Singapore Board of Directors Survey 2005.

Table 4: Basic non-executive director fees (165 companies)

		Turnover									
		<S$10m	S$10 - 25m	S$26 - 50m	S$51 - 100m	S$101 - 250m	S$251 - 500m	S$501 - 750m	>S$751m	ND	Total
Basic NED fees	less than S$15,000	1%	1%	2%	1%	1%	1%	0%	0%	0%	**7%**
	S$15,000 to < S$25,000	1%	5%	5%	8%	7%	1%	1%	3%	0%	**31%**
	S$25,000 to < S$50,000	0%	8%	5%	5%	14%	4%	2%	8%	0%	**47%**
	S$50,000 to < S$75,000	1%	1%	1%	2%	3%	1%	1%	2%	0%	**12%**
	S$75,000 to < S$100,000	1%	0%	0%	0%	0%	0%	0%	0%	0%	**1%**
	S$100,000 or above	0%	0%	0%	1%	1%	1%	1%	0%	1%	**4%**

Source: Singapore Board of Directors Survey 2005.

As can be seen from Table 4, almost 40% of the surveyed companies paid less than $25,000 basic non-executive fees per year, and 80% paid less than $50,000 per year.[21] The current level of basic non-executive fees in Singapore appears to be often unrealistically low compared to other countries, especially the more developed markets such as U.S., U.K. and Australia. A recent U.K. survey reported that the median basic fee for a non-executive director is £51,500 for a FTSE100 company and £36,000 for a FTSE250 company. Table 5 shows the range of basic non-executive director fees for FTSE100 and FTSE250 companies, classified by market capitalisation.[22]

Table 5: Distribution of basic non-executive director fees for U.K. FTSE100 and FTSE250 companies

Market capitalization (£m)	**Quartile 1**	**Median**	**Quartile 3**
300-600	£30,400	£32,700	£35,750
601-1,001	£31,950	£35,950	£38,150
1,001 – 2,500	£35,950	£38,850	£43,600
2,501-5,000	£40,300	£46,350	£51,150
5,001-10,000	£46,900	£53,750	£62,450
10,001 – 25,000	£49,100	£55,250	£60,300
More than 25,000	£58,570	£62,450	£69,100

A 2004 survey of non-executive director fees in Australia showed that median **total** fees was A$50,070 for a company with less than A$200m turnover; A$69,018 for A$200m-A$500m turnover; A$83,430 for A$500m-A$2b turnover; A$120,035 for A$2b-A$5b turnover; and A$142,159 for more than A$5b turnover.[23]

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[21] In addition to basic fees, many companies pay additional fees for additional responsibilities such as chairmanship of the board or board committees, and membership of board committees. Some also pay attendance fees and travel allowances.

[22] Board Structure and Non-Executive Directors' Fees, Deloitte & Touche LLP, September 2006.

[23] Board of Directors Study in Australia and New Zealand, Korn/Ferry International and Egan Associates, 2005.

Low non-executive director fees hinder the ability of companies to attract good candidates. As Table 4 and surveys in Australia and U.K. show, smaller companies generally pay lower fees. In one of the focus group discussions, some participants mentioned that the smaller companies are the ones which need the most time commitment by independent directors because they tend to have weaker internal controls and less developed corporate governance practices, which also increase their risk. The significantly lower non-executive director fees typically paid by smaller companies make it even more difficult for them to attract good independent directors.

Companies and shareholders need to be educated about the benefits of having good independent directors who are able to commit sufficient time to the company, and the need to pay realistic fees to attract good independent directors. However, this is not to say that wholesale increases in basic fees is warranted as, ultimately, increased fees must be justified by factors such as greater time commitment of directors. Therefore, while shareholders should be more open to paying higher fees for independent directors, especially for smaller companies where the fees are often unrealistically low, companies also need to be able to justify to shareholders that the company is getting more value from the directors in return.

Currently, non-executive directors within the same company are typically paid the same basic fees. Guideline 8.2 of the Revised Code recommends that "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." Many companies introduce differentiation in non-executive director fees by paying additional premiums for non-executive directors who take on additional responsibilities such as board chairmanship, committee chairmanship or committee membership, or by paying meeting fees or travel allowances where overseas travel is required to attend board meetings.

In one of the focus group discussions, a number of participants argued that there may need to be a differentiation in basic fees for different non-executive directors within the same board because of different relative "market value" of these directors. Alternatively, additional allowances can be paid for directors with higher "market value". Such differentiation in fees for different non-executive directors within the same company may be especially relevant in situations where the company wishes to appoint a director from one of the developed markets. However, boards themselves may be reluctant to differentiate fees in this manner because of fear of causing resentment among directors. There is also the fear that shareholders may be resistant to such a practice. This may make it difficult for companies to attract directors from the more developed markets. Take an example of a company which is listed in both Singapore and U.S. It will likely be useful, even necessary, for this company to have a U.S. director who is familiar with U.S. GAAP, the Sarbanes-Oxley Act, U.S. listing rules and the U.S. environment in general. Given the difference in fee structure between the U.S. and Singapore, and the common market practice of paying the same basic fee to all directors, such a company may find it very difficult to appoint a U.S. director. This is aggravated by the fact that many independent directors in the U.S. limit themselves to 4 or 5 directorships and will therefore be unlikely to accept "below market" fees.

Paying certain non-executive directors higher basic fees or additional allowances because of higher "market value" is not inconsistent with the spirit of Guideline 8.2 of the Code. Investors (and directors themselves) need to be more open to the idea that such a practice may be justified in some cases, but companies must also be transparent about the adoption of such a practice and be prepared to justify it. We also need to avoid a situation whereby an increase in basic fees is justified on the grounds of needing to pay higher "market rates" for certain directors, such as international directors, and then the basic fees of other directors are increased on the argument that all directors ultimately have the same basic duties and responsibilities and therefore deserve the same basic fees. Further, it does not necessarily mean that an international director should be paid the same fee he will receive on the board of, say, a U.S., U.K. or Australian company. For example, expectations, risk and time commitment required of a U.S. director sitting on the board of a Singapore company which does not have a U.S. listing is likely to be lower than if the same U.S. director sits on the board of a Singapore company with a U.S. listing.

Recommendation 3: Remuneration Disclosures and Policies

a) Minority shareholders (including institutional shareholders) should apply more pressure on companies to provide full disclosure of remuneration of individual directors and key executives, especially those directors or key executives who are controlling shareholders or related to controlling shareholders. Minority shareholders should consider using s164A to requisition for full disclosure of individual directors' remuneration. The SGX can also use rule 704(11) to improve disclosure of remuneration of executives who are related to a director, CEO or substantial shareholder.

b) Companies should be encouraged to have a better balance between short-term and long-term incentives in their remuneration policies. IPO sponsors and major outside investors should be more pro-active in introducing longer-term incentives into service agreements at the IPO stage.

c) Companies should pay more attention to the design and implementation of share-based remuneration to ensure that they align the interests of directors and executives to the long-term interests of shareholders, include challenging targets that reward good rather than average performance, are closely linked to individual or company-specific performance, and are disclosed on a timely basis.

d) Companies should review their non-executive directors' fees and the way these fees are set to ensure that they are able to attract good and committed independent directors. Shareholders should be open to paying higher fees for good independent directors, provided companies are transparent about the setting of fees and able to justify higher fees.

5.3. Audit committee

Almost all corporate scandals involve some form of financial improprieties, and often the AC is seen to have been part of the governance failure. Some of these committees did have accounting or financial expertise or experience, so it is simplistic to attribute the failure solely to the lack of expertise. Nevertheless, it is unlikely that an AC without the necessary expertise can perform more than a perfunctory role in the corporate governance of a company. The AC's responsibilities are very technical in nature, and this is quite different from, say, the nominating committee.

Guideline 11.2 in the Revised Code recommends that "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." It is up to the Board to satisfy itself that the AC members have the necessary accounting or related financial management experience. If we define "accounting or related financial management expertise or experience" as those who have either qualifications in accounting or finance, or who have worked in accounting or finance-related positions, it is estimated from annual report disclosures that around 20-25% of AC chairmen do not have such expertise or experience, and between half to 60% of all AC members do not have such expertise or experience.

While the responsibilities of the AC have been broadened in recent years, its main responsibilities are concerned with financial reporting, internal control and risk management. Accounting expertise and experience is particularly important to sufficiently understand issues relating to financial reporting, especially given the increasing complexity of financial reporting. In one of the focus group discussions, it was pointed out that business experience, and especially operational experience, is important in understanding issues relating to internal control and risk management. It is probably fair to say that having an AC consisting entirely of those with an accounting background may not be desirable, and some focus group participants felt that this may lead to a tendency to focus on minutiae and a failure to see the "forest from the trees". Diversity of background is useful on the AC.

Having said that, strong accounting expertise is arguably a "must" in the AC and at least one person on the AC should have this expertise. In some countries, such as U.S., H.K. and Malaysia, having at least one person with such expertise is either required or strongly expected under the listing rules or law. For example, under rule 3.10 of the H.K. Mainboard listing rules and rule 5.05 of the GEM listing rules, at least one of the independent directors must have "appropriate professional qualifications or accounting or related financial management expertise". It goes on to state that the Exchange expects such a person to have, "through experience as a public accountant or auditor or as a chief financial officer, controller or principal accounting officer of a public company or through performance of similar functions, experience with internal controls and in preparing or auditing comparable financial statements or experience reviewing or analyzing audited financial statements of public companies." In the U.S., companies are required to disclose whether there is an "audit committee financial expert" under SEC rules implementing the Sarbanes-Oxley Act 2002. The attributes required to qualify as an "audit committee financial expert" are accounting-related. In Singapore, the Exchange does scrutinize AC composition for IPO firms, but not on an ongoing basis.

Without the necessary accounting expertise or experience, the AC may find it difficult to resolve differences in opinion between management and the external auditors regarding appropriateness of accounting policies, or the reasonableness of management's responses to audit findings and recommendations. Some auditors have shared with me the problems they have faced when dealing with ACs without the necessary accounting expertise to understand technical accounting issues. One focus group participant argued that having someone with accounting expertise on the AC also helps in the oversight of the external auditors and enables the AC better evaluate the quality of the work of the external auditors.

It has been argued the chair should be independent and have the relevant accounting expertise, as the chair plans the agenda and often drives the discussions, and members often look to the chair for leadership. However, in one of the focus group discussions, participants argued that a financially-trained person does not necessarily equate to a good AC chair, and that those who are not financially trained, but who are experienced business people used to looking at accounts, can also make good AC chairs. What is important in this case is that chair is open to inputs from members with the relevant expertise. The best chairs are arguably those who have relevant accounting expertise and also significant business experience.

In one of the focus group discussions, it was also pointed out that AC training should be a key part of the training given to independent directors. There is a lot that less experienced AC chairs and members without the relevant accounting or financial expertise and experience can learn from highly experienced AC chairs and members on how to make the AC more effective in discharging its responsibilities, rather than merely complying in form with the duties and responsibilities of the AC as specified in the law, listing rules or code. Forums and roundtables allowing the discussion of issues faced and the sharing of experiences may be very useful for AC members to learn from each other.

What may also be helpful in improving AC effectiveness is practical guidance relating to key responsibilities of the AC, such as critical financial reporting issues, how to look for "red flags", developing an AC charter, key questions that the AC should ask the internal and external auditors, and key questions that the AC should ask about internal controls and risk management. Various accounting professional bodies both internationally and in Singapore have developed some of these guidance materials for their members. It would be useful if these can be made more widely available to those serving on ACs.

Recommendation 4: Audit Committees

a) Boards of directors should ensure that there is adequate accounting or financial expertise and experience on the AC. Shareholders should query companies as to whether there is the necessary expertise or experience on the AC.

b) Regulators should work with other professional bodies and seek the assistance of experienced AC members to share practical insights into the work of the AC with less experienced AC members and to allow for the exchange of ideas through forums and roundtables.

c) Regulators should encourage, and work with, professional bodies and other market players to develop and disseminate best practice guidance relating to the AC, such as critical financial reporting issues, external audit, internal audit, internal control and risk management.

5.4. Internal controls and risk management

Some of the large companies, banks and other financial institutions have established formal and, in some cases, highly sophisticated methodologies for managing and overseeing their risks. These companies provide good disclosures of financial and operational risks. They have established robust internal controls, and formal processes and frameworks for reviewing the adequacy of these controls. However, these are exceptions. Many companies do not disclose their risks (beyond standard financial risks based on requirements of accounting standards), provide little information about their internal controls and risk management processes, and the processes used for assessing the adequacy of their internal control and risk management. In the Singapore Board of Directors Survey 2005, only 57% of companies indicated that they monitored risk on an enterprise-wide basis at least on an annual basis, and only 45% reported having formal enterprise-wide processes for assessing the risks which have been identified.

The Code recommends that the audit committee should review the adequacy of internal controls and the board should comment on the adequacy of internal controls. While most companies state that the AC reviews the adequacy of internal controls, a significant number of companies do not include a statement by the board on the adequacy of internal controls.

To my knowledge, there is very little practical training and guidance available to directors on internal controls and risk management and, therefore, there is a possible lack of knowledge in what is an undoubtedly important area. In particular, how to implement cost-effective internal controls and risk management for SMEs has not received sufficient attention. [24]

In one of the focus group discussions, participants highlighted the importance of having an independent and effective internal audit function and the difficulty of finding good internal auditors. There is anecdotal evidence that fees for outsourced internal audits have also increased.

Recommendation 5: Internal Controls and Risk Management

a) Companies should provide more informative disclosures about their internal controls and risk management systems, and their approaches to ensuring their adequacy.
b) Shareholders should seek more information from companies about their risks, internal controls, risk management processes, and the board's opinion on the adequacy of internal controls and the basis for the opinion.
c) More practical guidance and training should be provided to directors on internal controls and risk management.

[24] Clearly, smaller companies do not have the same resources and expertise to establish formal risk management and internal control systems as large companies. The Committee of Sponsoring Organisations (COSO) under the Treadway Commission in the U.S. has recently published guidance for smaller companies on internal control over financial reporting. Although this is targeted at smaller U.S. companies in applying s404 and focuses on internal control over financial reporting, it may nevertheless be useful as a source for developing similar guidance for Singapore companies.

d) More guidance should be developed to assist listed SMEs to implement cost-effective internal controls and risk management.

5.5. Training of directors

Training of directors is a significant area of weakness in Singapore based on the annual board of directors' surveys conducted by SID and its partners, and anecdotal evidence on the actual attendance of training by directors. According to the 2005 board of directors' survey, 35% of non-executive directors were reported to have received no training at all, while 24% of the non-executive directors received only 1 to 4 hours of training and 17% received 5 to 8 hours of training. Thus, 76% of all non-executive directors were reported to have received less than 1 day of training in the previous year Companies also generally provide little information on the types and extent of training received by directors in their annual reports. Although it is difficult to empirically compare the extent to which directors receive training in Singapore relative to other countries, it is probably fair to say that in this area, Singapore lags well behind many other countries. These include more developed markets like U.S., U.K. and Australia, and our neighbouring countries like Malaysia and Thailand.

In the U.S., listing rules now require disclosures on training, and a number of premier U.S. business schools have launched directors' training programs. In U.K. and Australia, the institutes of directors have also developed a range of directors' programs, with the most advanced ones leading to chartered or other formal director qualifications.

In Malaysia, there was direct regulatory intervention requiring all directors to attend a mandatory accredited directors' program.[25] In Thailand, the Thai Institute of Directors (IOD) received financial support from intergovernmental organizations, such as the World Bank, after the 1997 financial crisis to help in the establishment of the institute and development of its training programs, and in recent years, has been remarkably successful in getting directors to attend training. The Thai IOD received assistance from the Australian Institute of Directors in developing its programs, and has recently progressed to

[25] Malaysia initially also introduced mandatory continuing education requirements for all directors but has recently relaxed this to a requirement to disclose whether directors attend continuing training.

a Chartered Directors' qualification similar to more formal qualifications-type programs in U.K. and Australia. The Thai IOD also receives strong support from the Stock Exchange of Thailand and the Thai Securities and Exchange Commission in encouraging directors to attend training.

In Singapore, the SGX requires a company applying for listing to disclose whether each of its directors has prior experience, or if the director has no prior experience as a director of a listed company, whether the person has undertaken training in the roles and responsibilities of a director of a listed company. There is a strong encouragement, but not an explicit requirement, for first-time directors of a company applying for listing to attend training. There is no continuing listing requirement for companies to disclose whether directors have attended training, although training of directors is covered by Guideline 1.6 of the Code. Greater emphasis by regulators and shareholders on directors' training may help spur demand for training.

Let's now turn to the supply side. For many years, the most formal directors' training program available in Singapore was the Company Directors' Course (CDC) offered by the SID. This included 4 two-day modules in The Company and Corporate Directorship, Finance for Directors, Strategic Business Direction and Getting the Best from Your Board. Participants attending this program received a certificate of attendance. I understand that registrations for the CDC had been declining in recent years. This program has now been discontinued and is being replaced by a formal directors' training program jointly offered by the SID and the Singapore Management University.

The SID (often in partnership with other organizations) has also delivered shorter regular seminars generally dealing with issues such as basic legal duties and liabilities, regulatory requirements, and finance and accounting. This is complemented by various short *ad hoc* seminars on a range of topics believed to be of relevance to directors. The SID and the National University of Singapore Business School have also jointly organized an annual conference for directors since 1999.

While any type of courses and seminars which provides opportunities for directors to understand their responsibilities, regulatory requirements and corporate governance best practices, and to keep abreast with other developments, should be welcome, a lot can be said for having different types of formal training programs catering to directors with different levels of experience. While short courses providing updates of developments may be adequate for experienced directors, first-time directors require more formalized and extensive training.

In informal discussions with independent directors, some of the problems with current training courses which were cited include duplication in content for different courses, an over-emphasis on legal and regulatory requirements, and insufficient emphasis on practical issues faced by directors. Many directors leave detailed legal and regulatory issues to the company secretary or legal adviser, and may not be inclined to attend training covering such issues. The lack of local case studies on real-life boardroom issues has also been frequently mentioned. At one of the focus group discussions, the value (and convenience) of training for an entire board, whereby an external trainer provides training in-house, often planned to coincide with a board meeting, was also raised. An experienced director also shared that, unlike other developed countries, there is an absence of a culture in Singapore whereby highly experienced directors take pride and interest in sharing their knowledge and experience with those who are less experienced. Some focus group participants felt that roundtables that involved experience-sharing, rather than formal training through seminars and courses, are more useful.

I believe it is not a matter of formal training versus experience-sharing. Different types of director education are needed. Variety is necessary to cater to different needs. However, there is also a need for proper training "roadmaps" designed for both experienced and inexperienced directors, and in line with these roadmaps, different content and learning platforms are needed. Some can be formal courses focusing on legal and regulatory requirements and corporate governance codes, while others can be more interactive roundtable discussions allowing the sharing of experience.

The responsibility for coordinating the development of training roadmaps and content, and the delivery of training, can rest with the SID or, if it does not have the necessary capacity to do so, with a separate Directors' Training Institute. Rather than "reinventing the wheel", the SID can work with institutes of directors in the more developed markets and adapt their programs to the Singapore market. For example, the Australian Institute of Company Directors (AICD) has developed formal training programs catering to directors with different levels of experience. Annex 5 shows the training programs developed by the AICD. In 2005, the AICD launched the International Company Directors Course (ICDC) catering to directors operating outside the Australian environment and this is delivered twice a year in various locations. In May 2007, the ICDC was held in Shanghai.

Working with institutes of directors in the more developed markets, such as the AICD, may also allow the sharing of experience and best practices from markets with higher corporate governance standards, and help in our effort to raise standards here. I understand that the AICD has expressed an interest in collaborating with Singapore partners to bring its programs to Singapore or having Singapore directors attend their programs in Australia. There may also be an opportunity to collaborate with the AICD and regional institutes of directors to offer a program in Singapore targeted at regional directors. This will fit in well with Singapore's aspirations to be both an education hub and to promote itself as a leader in corporate governance in the region.

However, taking training to the levels envisaged above requires considerable resources and the support of the regulators. There are wider public benefits from raising standards of training, and regulators should consider providing financial support for such capacity-building initiatives and helping to defray part of the costs of training, especially in the development of courses and content. Inter-governmental organizations such as the World Bank has provided financial support for capacity-building, including the setting up of institutes of directors and training of directors, to some regional countries. However, Singapore does not receive such support and training is very much left to the market. It does not appear that the current approach of leaving training largely to the market is working, in terms of raising the demand for training and improving its supply.

There is also a need to devote more resources to developing training courses and content for directors who are not conversant in English. This may include initiatives to translate more materials, especially to Chinese, given the number of Chinese companies listed here and the growing number of Chinese listed companies worldwide. In one of the focus group discussions, there was a view that executive directors in foreign companies need training as they are unfamiliar with corporate governance requirements and come from a different regulatory regime, and training may also help them to better understand the role and value of independent directors.

Recommendation 6: Training of Directors

a) Regulators should work with other professional bodies to specify minimum training requirements for first-time directors based on a formal training roadmap which takes into account the skills and knowledge required to be a director. Regulators and other professional bodies should encourage all directors to attend ongoing training to update themselves. More pressure should be put by shareholders for companies to disclose whether directors have attended training and the type of training attended.

b) Regulators should support initiatives to develop training roadmaps and content, and the delivery of training, for first-time and experienced directors. Collaboration with institutes of directors in more developed markets, such as Australia, to develop and deliver such programs should be explored. Support for training should include financial support, especially in developing courses and content. Types of training should include learning through case studies of practical issues faced by boards and roundtable discussions which allow the sharing of experience.

c) Regulators should support initiatives to develop more training programs and content in Chinese.

6. OTHER ISSUES AND RECOMMENDATIONS

In this chapter, I discuss some other issues and make some further recommendations which should be considered to further enhance corporate governance in Singapore.

6.1. Exemption from SGX listing requirements

In the course of undertaking this project and also in other work such as the S&P-CGFRC (2004) studies of corporate governance disclosure studies and Singapore Corporate Governance Awards, a possible issue with secondary listings arose. Secondary listings are exempt from complying with SGX listing rules and, on average, their corporate governance disclosures are lower than primary listings. This occurs even in cases where these secondary listings have a primary listing in developed markets, such as the London Stock Exchange (LSE). The reason is that, under the U.K. Listing Rules, a company is only required to 'comply or explain' against the Combined Code, if it has <u>both</u> a primary listing on the London Stock Exchange <u>and</u> is incorporated in the U.K.. In other words, a company incorporated, say, in Bermuda and listed on the LSE, does not have to comply with, or explain deviations from the U.K. Combined Code.[26] Therefore, a company which has a primary listing on LSE and a secondary listing on SGX may not comply with, or explain deviations from, either the U.K. or the Singapore codes. One school of thought may argue that as they are secondary listings, it is not the responsibility of SGX to regulate them.

In 2002, the Australian Stock Exchange (ASX) amended its rules exempting foreign companies from complying with its listing rules. Under the amended rules, only foreign companies with net tangible assets of at least A$2 billion or A$200 million profit after tax in each of the previous three years can qualify for foreign exempt status and be exempted from ASX listing rules. All other companies must comply with the ASX listing rules. Further, companies with foreign exempt status are clearly designated as such.

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[26] In 2005, the U.K. Financial Services Authority, which is responsible for the U.K. Listing Rules, added a requirement that companies incorporated outside the U.K. must nonetheless say whether they follow the requirements in their country of incorporation and explain where these differ significantly from the Combined Code.

The current problem in Singapore is that it is not clear from the SGX listings whether a company has a primary or a secondary listing here, and therefore, whether the company complies with the SGX rules.

In the spirit of the disclosure-based approach and *caveat emptor*, it is recommended that the SGX clearly designate companies which are not required to comply with its rules. This will ensure that investors are fully informed when investing in such companies.

Recommendation 7: Exemption from SGX Listing Requirements
SGX should clearly identify those companies which are not required to comply with its continuing listing requirements.

6.2. Institutional shareholder activism

Institutional shareholder activism (or shareowner or shareholder engagement) is a powerful force driving improvements in corporate governance globally.[27] Institutional shareholder activism started in the more developed markets, but is now spreading to less developed markets. In some cases, active institutional investors and fund managers have come together to collectively engage with boards and management and raising corporate governance concerns with them. Globally, some of the largest institutional investors and fund managers have established the International Corporate Governance Network to further promote shareholder engagement. Increasing shareholder engagement has also fuelled the growth of proxy advisory firms and other intermediaries such as Institutional Shareholder Services (ISS) and Governance for Owners, Inc. (GO).

It is generally accepted that shareholder activism remains at a nascent stage of development in Singapore, despite regular prodding from business leaders, regulators and other commentators for institutional investors and fund managers to play a more active role. Much of the shareholder activism in Singapore at the moment is driven by retail shareholders, often through the efforts of SIAS. However, for shareholder activism to play

[27] The term “shareowner engagement” rather than “shareholder activism” is often preferred by institutional investors and fund managers. Some of the more influential funds, such as Hermes, prefer private engagement with boards and management, rather than “activism through the media”.

a bigger role in improving corporate governance in Singapore, institutional investors and fund managers must play a more active role.

Institutional investors and fund managers here do not face the same expectations and pressure as their international counterparts to discharge their fiduciary duty to investors whose funds they are managing. Increasing shareholder engagement requires the investment of resources (for example, to build dedicated corporate governance units or engage the services of intermediaries to do so). It is sometimes believed that there are first movers' disadvantages in increasing shareholder engagement activities because the cost of any investment in such activities will be borne by them, while potential benefits will be shared by all. This is, of course, the classic "free rider" problem. This problem has been overcome to a large extent in more developed markets because of the common acceptance of fiduciary duty obligations by institutional investors and fund managers. Further, fund managers which are invested in companies early and which actively engage companies will derive the greatest gains from any improvement in returns. There is some empirical evidence that fund managers which are active in engaging with companies are able to earn higher abnormal returns.[28]

International institutional investors and fund managers have also become increasingly vocal in complaining about the barriers they face in properly discharging their fiduciary duty in the region. Some of the major barriers include inability to attend general meetings because of limits to number of proxies, lack of time for informed voting, lack of control over the counting of votes, clustering of meeting dates, and the common practice of voting by show of hands. The Asian Corporate Governance Association (ACGA) has recently published a study with CLSA on this subject. It concluded that the region as a whole is well behind international best practice, and Singapore is several points behind Hong Kong in this regard.

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[28] For example, in the paper "Returns from Shareholder Activism: Evidence from a Clinical Study of the Hermes U.K. Focus Fund" by March Becht, Julian Franks, Colin Mayer and Stefano Rossi published by the London Business School, it was found that the Hermes U.K. Focus Fund substantially outperform benchmarks and that the abnormal returns are largely associated with engagement rather than stock-picking.

Given Singapore's standing as an international financial centre and its aim of attracting more investment in companies listed here, there is a need to study in more detail the issues faced especially by international institutional investors and fund managers in attending meetings and voting their shares, and how barriers faced by them could be overcome or at least significantly reduced. More pressure should also be placed on local institutional investors and fund managers to discharge their fiduciary duty.

Recommendation 8: Institutional Shareholder Activism

a) Barriers to shareholder engagement, including voting proxies and attending meetings, should be further studied with a view to overcoming or reducing them.

b) More pressure should be placed on institutional investors and fund managers to discharge their fiduciary duty to beneficiaries and to be more transparent in their shareholder engagement policies.

7. CONCLUDING COMMENTS

In this report, I have raised a number of specific concerns and broader issues relating to corporate governance in Singapore, and made a number of recommendations for addressing these concerns with a view to improving the implementation of corporate governance practices. These recommendations are summarized in Table 6. It is hoped that this report will generate discussion amongst directors, senior management, shareholders, regulators, and other market participants and that it has provided some useful ideas for companies to improve their implementation of corporate governance practices.

I have not discussed the issue of ethics in this report. Ethics at the top of companies – i.e., amongst directors and CEOs – is a critical part of good corporate governance. Recent corporate governance scandals have a lot to do with ethical failures. In all of these scandals, unethical and unlawful conduct by those responsible for managing and directing companies was an important contributory factor. I am concerned about whether the importance of ethics permeating from the top of the organization is adequately recognized by boards and senior management of companies. Other factors, such as competencies, appear to sometimes overshadow unethical conduct. Having good corporate governance disclosures and practices along the lines recommended in this report is not sufficient for ensuring good governance, although they are a critical part of ensuring that there are adequate checks and balances and accountability to stakeholders. Good governance is a matter of ethics *and* rules, not ethics *or* rules. Further, it is not about just rules, but the effective enforcement of these rules.

Table 6: Summary of recommendations

No.	Topic	Recommendation
1	Implementation of the "Comply or Explain" Requirement	a) The board of directors of companies should ensure that there is a process in place to ensure proper application of the "comply or explain" requirement and that corporate governance disclosures in annual report reflect corporate governance practices of the company. b) Companies should use a checklist internally to ensure that key corporate governance practices relating to each principle are described, and confirming if the company complies with each guideline, and if not, to provide an explanation. c) To aid investors in understanding the extent of application of the Code, companies should provide a positive confirmation statement at the beginning of the corporate governance report that the company has applied all the principles and complied with all the guidelines, or to identify deviations where this is not the case. d) The committee responsible for reviewing the Code should provide clearer rationale for specific principles and guidelines so that the intent of these guidelines is properly understood by companies. e) Regulators should lead initiatives to provide more practical guidance and education on implementing major principles and guidelines within the Code, including good corporate governance reporting practices, for example, through joint efforts between the regulators and the major professional bodies, disseminating guidance developed by regulators and professional bodies in other countries, and by organizing educational forums whereby good practices can be shared. f) Shareholders should question companies at AGMs about their corporate governance practices as disclosed in the corporate governance report. g) Regulators should lead initiatives to periodically review compliance with the Code and implementation of the "comply or explain" requirement, with a view to educating companies on how to improve the implementation of the Code, identifying challenges faced in implementation, and providing inputs into future revisions of the Code.

No.	Topic	Recommendation
2	Independence, Effectiveness and Pool of Independent Directors	a) Investors, including institutional investors at the IPO stage, should apply more pressure on companies to adopt more open processes for recruiting independent directors and be more proactive in proposing independent director candidates and asking questions about the choice of independent director candidates. b) Regulators should consider supporting the creation of an online directors' register to increase the pool of independent directors and to assist companies in finding independent director candidates. c) Nominating committees should adopt a more holistic approach, consistent with the spirit of Guideline 2.1, in assessing the independence of independent directors. They should consider the relationships specified in Guideline 2.1 as examples of relationships that may affect the actual or perceived independence of directors and be more stringent in assessing the independence of directors who are also professional advisers for the company. d) The SGX should have a separate category for announcements of "resignations of directors and key officers" on the SGXNET. Companies should state more clearly the reasons for director resignations. e) Independent directors who are resigning should be encouraged to privately communicate any concerns to the SGX.

No.	Topic	Recommendation
3	Remuneration Disclosures and Policies	a) Minority shareholders (including institutional shareholders) should apply more pressure on companies to provide full disclosure of remuneration of individual directors and key executives, especially those directors or key executives who are controlling shareholders or related to controlling shareholders. Minority shareholders should consider using s164A to requisition for full disclosure of individual directors' remuneration. The SGX can also use rule 704(11) to improve disclosure of remuneration of executives who are related to a director, CEO or substantial shareholder. b) Companies should be encouraged to have a better balance between short-term and long-term incentives in their remuneration policies. IPO sponsors and major outside investors should be more pro-active in introducing long-term incentives into service agreements at the IPO stage. c) Companies should pay more attention to the design and implementation of share-based remuneration to ensure that they align the interests of directors and executives to the long-term interests of shareholders, include challenging targets that reward good rather than average performance, are closely linked to individual or company-specific performance, and are disclosed on a timely basis. d) Companies should review their non-executive directors' fees and the way these fees are set to ensure that they are able to attract good and committed independent directors. Shareholders should be open to paying higher fees for good independent directors, provided companies are transparent about the setting of fees and able to justify higher fees.

No.	Topic	Recommendation
4	Audit Committee	a) Boards of directors should ensure that there is adequate accounting or financial expertise and experience on the AC. Shareholders should query companies as to whether there is the necessary expertise or experience on the AC. b) Regulators should work with other professional bodies and seek the assistance of experienced AC members to share practical insights into the work of the AC with less experienced AC members and to allow for the exchange of ideas through forums and roundtables. c) Regulators should encourage, and work with, professional bodies and other market players to develop and disseminate best practice guidance relating to the AC, such as critical financial reporting issues, external audit, internal audit, internal control and risk management.
5	Internal Controls and Risk Management	a) Companies should provide more informative disclosures about their internal controls and risk management systems, and their approaches to ensuring their adequacy.. b) Shareholders should seek more information from companies about their risks, internal controls, risk management processes, and the board's opinion on the adequacy of internal controls and the basis for the opinion. c) More practical guidance and training should be provided to directors on internal controls and risk management. d) More guidance should be developed to assist listed SMEs to implement cost-effective internal controls and risk management.

No.	Topic	Recommendation
6	Training of directors	d) Regulators should work with other professional bodies to specify minimum training requirements for first-time directors based on a formal training roadmap which takes into account the skills and knowledge required to be a director. Regulators should encourage all directors to attend ongoing training to update themselves. More pressure should be put by shareholders for companies to disclose whether directors have attended training and the type of training attended. e) Regulators should support initiatives to develop training roadmaps and content, and the delivery of training, for first-time and experienced directors. Collaboration with institutes of directors in more developed markets, such as Australia, to develop and deliver such programs should be explored. Support for training should include financial support, especially in developing courses and content. Types of training should include learning through case studies of practical issues faced by boards and roundtable discussions which allow the sharing of experience. f) Regulators should support initiatives to develop more training programs and content in Chinese.
7	Exemption from SGX Listing requirements	a) SGX should clearly identify those companies which are not required to comply with its continuing listing requirements.
8	Institutional Shareholder Activism	a) Barriers to shareholder engagement, including voting proxies and attending meetings, should be further studied with a view to overcoming or reducing them. b) More pressure should be placed on institutional investors and fund managers to discharge their fiduciary duty to beneficiaries and to be more transparent in their shareholder engagement policies.

Annex 1: Items in the scorecard used to assess corporate governance disclosures and practices

1. Number of directors on the board
2. Number of executive directors
3. Number of non-executive, non-independent directors
4. Number of independent directors
5. Is the CEO also the Chairman of the Board?
6. Is the Chairman of the Board an Executive Director (i.e., Executive Chairman)
7. Is the Chairman of the Board related to another director or to senior management (e.g., CEO, COO or CFO)?
8. Is the Chairman of the Board a non-executive, non-independent director?
9. Is the Chairman of the Board an independent director?
10. Is the date of first appointment to the Board or number of years served for each independent director disclosed?
11. What is the longest tenure of any independent director on the Board?
12. What is the average tenure of independent directors on the Board?
13. How many times did the board meet?
14. Is individual attendance at board meetings of all directors disclosed?
15. What is the average attendance of independent directors at board meetings?
16. Is there a formal orientation program for all new directors?
17. Do the directors receive ongoing training?
18. Who provides the training?
19. Are educational qualifications for each director disclosed?
20. Is working experience for each director disclosed?
21. Are all current directorships held by each director in other listed companies disclosed?
22. Are all recent directorships (last 3 years) in other listed companies held by each director disclosed?
23. Is disclosure made of membership of board committees?
24. Is disclosure made of frequency of all board committee meetings?
25. Is disclosure made of individual director's attendance at major board committee meetings?
26. Does the company have a nominating committee?
27. Is the chairman of the nominating committee independent?
28. How many members are there on the nominating committee?
29. How many independent directors are there on the nominating committee?
30. Does the process for appointing new board members include an independent search for new board members (e.g., through external consultants, advertising, etc.)?
31. Is a formal appraisal of board performance conducted?
32. Are criteria for evaluating board performance disclosed?
33. Is formal appraisal of individual directors conducted?
34. Are criteria for evaluating individual directors disclosed?
35. Does the company have a remuneration committee?
36. Is the chairman of the remuneration committee independent?
37. How many members are there on the remuneration committee?
38. How many independent directors are there on the remuneration committee?

39. Is disclosure made of the process used to determine remuneration? (e.g., external compensation specialists hired) to ascertain industry practices and salary levels for pay and employment conditions?
40. Is the remuneration of executive directors linked to company and/or individual performance?
41. Is there disclosure of the range of performance-related remuneration (e.g., as a percentage of basic salary) that the executive directors are entitled to?
42. Does executive director remuneration include long-term incentives?
43. Is remuneration of non-executive directors linked to their level of contribution and responsibilities, such as committee responsibilities?
44. Do all directors own shares in the company?
45. Does company use options or shares as remuneration for executive directors or senior executives?
46. Do non-executive or independent directors receive options?
47. Do shares or options vest over a number of years?
48. Is vesting of shares or options subject to performance conditions?
49. Are total fees and remuneration of each individual director disclosed?
50. Are individual components of fees and remuneration of each individual director fully disclosed?
51. Are the names of directors receiving each band or amount of remuneration disclosed?
52. Is the chairman of the audit committee independent?
53. How many members are there on the audit committee?
54. How many independent directors are there on the audit committee?
55. Does the chairman of the audit committee have accounting/finance expertise?
56. How many members of the audit committee have accounting/financial expertise?
57. How many times did the audit committee meet?
58. Is an annual review conducted of company's internal controls and risk management?
59. Does the annual report include a statement by the board on adequacy of internal controls?
60. Does the company have an internal audit function?
61. Does the internal auditor report primarily to the chairman of the audit committee?
62. Does the company have a code of ethics?
63. Does the company have a whistleblowing policy?
64. Does the company have a website?
65. Does the company's website include a section for investors?
66. Does the website include corporate governance information, beyond identity or bios of board members?
67. Does the company list a person/contact for responding to shareholder queries (e.g., IR officer) either in the annual report or website?

Annex 2: Disclosure of selected corporate governance arrangements

Disclosure item	Does non-disclosure with no explanation mean non-compliance?	Reason	Disclosure by Mainboard companies	Disclosure by SESDAQ companies
The number of board and board committee meetings held in the year,	Yes	Board and board committees must have met during the year	3% did not disclose frequency of board meetings; 7% did not disclose frequency of **any** board committee meetings.	4% did not disclose frequency of board meetings; 12% did not disclose frequency of **any** board committee meetings.
Attendance of every board member at these board and committee meetings.	Yes	Board and board committees must have met during the year	9% did not disclose attendance of individual directors at board meetings; 8% did not disclose attendance of individual directors at **any** of the board committee meetings (some did not disclose for some board committees)	12% did not disclose attendance of individual directors at board meetings; 15% did not disclose attendance of individual directors at **any** of the board committee meetings (some did not disclose for some board committees)
Relationship between the Chairman and CEO where they are related to each other.	No	Non-disclosure may indicate no relationship, or relationship present but not disclosed. However, failure to disclose a relationship without explanation is a violation.	41% had a single Chairman/CEO and another 23% had an executive Chairman (and a separate CEO). It is conservatively estimated that in around 17% of companies, the Chairman is also related to senior management or to another director. Based on the Singapore CG awards assessment, an estimated 41% disclosed there is no relationship between the Chairman and CEO.	41% had a single Chairman/CEO and another 22% had an executive Chairman (and a separate CEO). It is conservatively estimated that in around 36% of companies, the Chairman is also related to senior management or to another director. Based on the Singapore CG awards assessment, an estimated 32% disclosed there is no relationship between the Chairman and CEO.

Disclosure item	Does non-disclosure with no explanation mean non-compliance?	Reason	Disclosure by Mainboard companies	Disclosure by SESDAQ companies
Key information regarding directors, which directors are executive, non-executive or considered by the nominating committee to be independent.	Yes	This information would exist for all directors	Disclosure of key information regarding directors as recommend in guidance note 4.5 of the Code was patchy and inconsistent. For example, 12% did not disclose current listed directorships for any director, and another 40% only disclosed for some directors. 37% did not disclose past listed directorships for any director and another 29% only did so for some directors. It is also unclear whether for those which disclosed, the list of directorships is complete. (an example of good disclosure is shown in the Appendix)	Disclosure of key information regarding directors as recommend in guidance note 4.5 of the Code was patchy and inconsistent. For example, 34% did not disclose current listed directorships for any director, and another 53% only disclosed for some directors. 90% did not disclose past listed directorships for any director and another 2% only did so for some directors. It is also unclear whether for those which disclosed, the list of directorships is complete.

Disclosure item	Does non-disclosure with no explanation mean non-compliance?	Reason	Disclosure by Mainboard companies	Disclosure by SESDAQ companies
Existence/composition of nominating, remuneration and audit committees.	Yes	Companies which did not have these committees have to disclose and explain why (the AC is mandatory). A company which (a) did not disclose that it did not have a committee and did not explain why, and (b) did not disclose the composition, would have breached the "comply or explain" requirement. A company which disclosed it had a committee and did not disclose the composition and did not explain why, would also have breached the "comply or explain" requirement.	Companies are almost 100% compliant.	Companies are almost 100% compliant.

Disclosure item	Does non-disclosure with no explanation mean non-compliance?	Reason	Disclosure by Mainboard companies	Disclosure by SESDAQ companies
Process for assessing the effectiveness of the Board as a whole and the contribution of each individual director to the effectiveness of the Board.	Yes	Unless it does not practice board evaluation, in which case it would have to disclose and explain. If it did not disclose process, and did not disclose the absence of board evaluation and explain why, then it would be clear that it did not comply.	65% indicated they conduct board evaluation, but 63% of these companies did not provide details about the process and 35% of these companies did not provide any information on criteria used. For individual director evaluation, 52% reported doing it, but only about 72% of these companies did not give details about process and about half did not mention criteria used.	73% indicated they conduct board evaluation, but 52% did not provide details about the process and 51% did not provide any information on criteria used. 66% reported doing individual director appraisal, with 54% of these companies not providing details about process and 54% not disclosing any details about criteria.
Clear disclosure of remuneration policy, level and mix of remuneration, procedure for setting remuneration and link between remuneration paid to directors and key executives, and performance.	Yes	All companies must have these items.	74% did not disclose process for setting remuneration; 22% did not disclose if remuneration of executive directors is linked to performance and another 73% did not disclose performance measures used; 31% did not give breakdown between performance related or other remuneration (mix)	97% did not disclose procedures for setting remuneration; 17% did not disclose if linked to performance and another 70% did not disclose performance measures used; 12% did not give breakdown between performance related or other remuneration (mix)

Disclosure item	Does non-disclosure with no explanation mean non-compliance?	Reason	Disclosure by Mainboard companies	Disclosure by SESDAQ companies
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.	Yes	These items would apply to all companies.	73% of companies comply with or exceed the recommendation that remuneration be disclosed in bands of $250k (with no upper limit). Around 27% only specify in bands according to the SGX listing rules (chapter 12), which include a top remuneration band of $500k and above. Around 6% of companies follow global best practice by disclosing exact remuneration for all directors on an individual basis. In terms of disclosure of individual components of fees and remuneration, 21% did not do this. Around 6% exceeded the recommendation by providing breakdown in dollar terms. 83% disclosed the names of the directors receiving each band or amount of remuneration.	8% of companies comply with or exceed the recommendation that remuneration be disclosed in bands of $250k (with no upper limit). Around 92% only specify in bands according to the SGX listing rules (chapter 12), which include a top remuneration band of $500k and above. It is of course possible that for many of these relatively small companies, remuneration does not go much higher than $500k. But as many of these companies have families/senior management who are controlling shareholders, there is also the risk of hidden inflated remuneration. Around 2% of companies follow global best practice by disclosing exact remuneration for all directors on an individual basis. In terms of disclosure of individual components of fees and remuneration, 11% did not do this. 3% exceeded the recommendation by providing breakdown in dollar terms. 93% disclosed the names of the directors receiving each band or amount of remuneration.

Disclosure item	Does non-disclosure with no explanation mean non-compliance?	Reason	Disclosure by Mainboard companies	Disclosure by SESDAQ companies
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.	Yes	These items would apply to all companies	Based on Singapore CG Awards data, 20% did not disclosed at all, 77% disclosed in bands, and 3% disclosed exact amounts.	Based on Singapore CG Awards data, 21% did not disclosed at all, 79% disclosed in bands, and 0% disclosed exact amounts.
Remuneration of employees who are immediate family members of a director or the CEO, and whose remuneration exceeds S$150,000 during the year. The disclosure should be made in bands of S$250,000 and include a breakdown of remuneration.	No	Non-disclosure may indicate no such employees, no such employees exceeding $150,000 or non-compliance	Not applicable – no disclosure if there is no relationship.	Not applicable – no disclosure if there is no relationship.

Disclosure item	Does non-disclosure with no explanation mean non-compliance?	Reason	Disclosure by Mainboard companies	Disclosure by SESDAQ companies
Details of employee share schemes.	Yes	Share schemes must be approved by shareholders and disclosed. Where share schemes are disclosed but details are not and no explanation is given, then the company is clearly non-compliant.	27% do not use any share or share option scheme, 28% used share options only, 16% used shares only, and 29% used both. In other words, 73% used some form of share or option scheme. However, only 35% of companies having shares or options disclosed vesting periods and only about 1% of companies using shares or options disclosed performance conditions.	67% do not use any share or share option scheme, 31% used share options only, 0% used shares only, and 1% used both. In other words, 33% used some form of share or option scheme. 69% of companies having shares or options disclosed vesting periods and no company using shares or options disclosed performance conditions.
Adequacy of internal controls, including financial, operational and compliance controls, and risk management systems.	Yes	However, such statements are often vague; the scope of internal controls unclear; and there is a focus on financial risks only. This makes it difficult to judge if the company is non-compliant.	10% did not include such a statement, and only about 2% provided comprehensive disclosures about basis or framework (e.g., COSO) underlying the statement.	27% did not include such a statement, and none provided comprehensive disclosures about basis or framework (e.g., COSO) underlying the statement.

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Annex 3: Checklist for self-assessment of compliance with Code of Corporate Governance – 2005

The Company should disclose its corporate governance practices and explain deviations from the Code in the annual report.

Principle/Guidelines			Complied	Not Complied	Explanation for non-compliance / Comments	Proposed Action / Implementation Date
Principle 1 - The Board's Conduct of Affairs						
An effective Board should lead and control the Company and responsible for the success of the Company.			**Describe corporate governance practices related to principle**			
Management remains accountable to the Board.						
1.1	The Boards 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	The Company should disclose any delegation of authority by the Board to any Board Committee to make decision on certain Board matters.					

Principle/Guidelines			Complied	Not Complied	Explanation for non-compliance / Comments	Proposed Action / Implementation Date
Principle 1 - The Board's Conduct of Affairs (Cont'd)						
1.4	(a)	The Board should meet regularly and as warranted by particular circumstances, as deemed appropriate by the board members.				
	(b)	The Company is encouraged to amend the Articles of Association to provide for telephonic and videoconference meetings.				
	(c)	The Company should disclose the number of board and board committee meetings held in the year as well as the attendance of every board member at these meetings in the Company's annual report.				
1.5	The Company should adopt internal guidelines setting forth matters that require Board approval and specify In the corporate governance disclosures the type of material transactions that require the Board approval under such internal guidelines.					
1.6	Every Director should receive appropriate training[1], particularly on relevant new laws, regulations and changing commercial risks and including duties as a director and how to discharge such duties, when he/she is first appointed to the Board.					
1.7	Upon appointment of each director, the Company should provide a formal letter to the director, setting out the director's duties and obligations.					
1.8	The Company is encouraged to provide training for first-time Directors in areas such as accounting, legal and industry-specific knowledge.					

[1] The training should include an orientation program to ensure that incoming directors are familiar with the Company's business and governance practices.

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Principle/Guidelines		Complied	Not Complied	Explanation for non-compliance / Comments	Proposed Action / Implementation Date
Principle 2 **- Board Composition and Guidance**					
There should be a strong and independent element on the Board, which is able to exercise objective judgement on corporate affairs independently, in particular, from Management.		**Describe corporate governance practices related to principle**			
2.1	The Company should have at least one-third of the Board comprising of independent Directors[2].			.	
2.2	Where the Company considers a director to be independent in spite of the existence of a relationship as stated in the Code, which 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.				
2.3	The Board should, taking into account the scope and nature of the operations of the Company, examine the size and decide on what it considers an appropriate size for the Board, which facilitates effective decision making.				
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.				

[2] An "independent" director is one who has no relationship with the Company, its related companies 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. A related Company in relation to a corporation includes its subsidiary, fellow subsidiary or parent Company.

Principle/Guidelines			Complied	Not Complied	Explanation for non-compliance / Comments	Proposed Action / Implementation Date
Principle 2 **- Board Composition and Guidance (Cont'd)**						
2.5	Non–executive Directors:-					
	(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.				
2.6	Non-executive Directors are encouraged to meet regularly without management presence.					
Principle 3 **- Chairman and Chief Executive Officer**						
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.			**Describe corporate governance practices related to principle**			
3.1	(a)	The Chairman and Chief Executive Officer ("CEO") should be separate persons to ensure an appropriate balance of power, increased accountability and greater capacity of the Board for independent decision-making.				
	(b)	The division of responsibilities between the Chairman and CEO should be clearly established and set out in writing and agreed by the Board.				
	(c)	The Company should disclose the relationship between the Chairman and CEO where they are related to each other.				

Principle/Guidelines			Complied	Not Complied	Explanation for non-compliance / Comments	Proposed Action / Implementation Date
Principle 3 - Chairman and Chief Executive Officer (Cont'd)						
3.2	The Chairman should:-					
	(a)	Lead the Board to ensure the effectiveness on all aspects of the role and set the agenda;				
	(b)	Ensure that the Directors receive accurate, timely and clear information;				
	(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.				
3.3	The Company may appoint an independent non-executive director to be the Lead Independent Director[3] where the Chairman and the CEO is the same person or related by closed family ties or part of the executive management team. This is a commentary in the Code and is not mandatory to comply. 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.					

[3] The Lead Independent Director should be available to shareholders where they can contact through the normal channels of the Chairman, CEO or Finance Director has failed to resolve or for which such contact is inappropriate.

Principle/Guidelines			Complied	Not Complied	Explanation for non-compliance / Comments	Proposed Action / Implementation Date
Principle 4 - Board Membership						
There should be a formal and transparent process for the appointment of new directors to the Board.			**Describe corporate governance practices related to principle**			
4.1	The Company should:-					
	(a)	establish a Nominating Committee ("NC") comprise of at least 3 directors, a majority of whom including the Chairman, are independent of any substantial shareholder[4]; and				
	(b)	disclose the membership in the annual report.			.	
	The NC should have written terms of reference that describe the responsibilities of NC members.					
4.2	The NC should be responsible of re-nomination having regard to the Director's contribution and performance (e.g., attendance, preparedness, participation and candour) as an independent director.					
	All Directors are required to submit themselves for re-nomination and re-election at regular interval and at least every three years.					
4.3	The NC should be responsible of determining annually if a director is independent. If the NC determines that a director, who has one or more of the relationships, can be considered independent, the Company should make a disclosure as stated in Guideline 2.2.					

[4] A substantial shareholder is a shareholder with interest of 5% or more in the voting shares of the Company.

Principle/Guidelines				Complied Not Complied	Explanation for non-compliance / Comments	Proposed Action / Implementation Date
Principle 4 - Board Membership (Cont'd)						
4.4	The NC should decide if a Director, who has multiple board representations, is able to and has been adequately carrying out his/her duties as a Director of the Company.					
4.5	A description of the process for the selection and appointment of new directors, including disclosure on the search and nomination process, to the Board should be disclosed.					
4.6	The following information should be disclosed in the Company's annual report:-					
	(a)	Key information of directors:-				
		➢	academic/professional qualifications;			
		➢	shareholding in the Company and its subsidiaries;			
		➢	board committees, date of first appointments & date of last re-election; and			
		➢	directorships or chairmanships both present and those held over the preceding three years in other listed companies and other major appointments.			
	(b)	Corporate governance, which directors are executive, non-executive or considered to be independent.				
	The names of the directors submitted for election or re-election should also be accompanied by details and information to enable shareholders to make informed decisions.					

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Principle/Guidelines		Complied Not Complied	Explanation for non-compliance / Comments	Proposed Action / Implementation Date
Principle 5 - Board Performance (Cont'd)				
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.		**Describe corporate governance practices related to principle**		
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 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.			
	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 and should not be changed from year to year.			
5.3	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).			

Principle/Guidelines		Complied Not Complied	Explanation for non-compliance / Comments	Proposed Action / Implementation Date
Principle 5 **- Board Performance (Cont'd)**				
5.4	The Chairmen of the Board 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.			
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.			
Principle 6 **- Access to Information**				
Board members should be provided with complete, adequate and timely information prior to board meetings and on an on-going basis.		**Describe corporate governance practices related to principle**		
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 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.			

Principle/Guidelines		Complied Not Complied	Explanation for non-compliance / Comments	Proposed Action / Implementation Date
Principle 6 **- Access to Information (Cont'd)**				
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 procedur es 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.			

Principle/Guidelines			Complied	Not Complied	Explanation for non-compliance / Comments	Proposed Action / Implementation Date
Principle 7 **- Procedures for Developing Remuneration Policies**						
There should be a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual directors.			**Describe corporate governance practices related to principle**			
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, to minimise the risk of any potential conflict of interest.					
7.2	The RC:-					
	(a)	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.				
	(b)	Should cover over all aspects of remuneration, including but not limited to director's fees, salaries, allowances, bonuses, options, and benefits in kind.				
7.3	The RC should seek expert advice inside and/or outside the Company on remuneration of all directors.					

Principle/Guidelines		Complied	Not Complied	Explanation for non-compliance / Comments	Proposed Action / Implementation Date
Principle 8 **Level and Mix of Remuneration**					
The level of remuneration should be appropriate to attract, retain and motivate the directors needed to run the Company successfully and executive directors' remuneration should be structured so as to link rewards to corporate and individual performance.		**Describe corporate governance practices related to principle**			
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.				
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 and should not be over-compensated.				
8.3	There should be a fixed appointment period, which is not excessively long, for all service contracts for executive directors and there are no onerous removal clauses or early termination clauses.				
8.4	The RC should encourage long-term incentive scheme and review whether directors should be eligible to participate as well as the costs and benefits of the schemes.				
	Offer of shares or granting of options or other forms of deferred remuneration should vest over a period of time with vesting schedules, whereby only a portion of the benefits can exercise each year.				

		Complied	Not Complied	Explanation for non-compliance / Comments	Proposed Action / Implementation Date
Principle 8 **Level and Mix of Remuneration (Cont'd)**					
	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.				
8.5	The Company should be aware of pay and employment conditions within the industry and in comparable companies when setting remuneration packages.				
8.6	Notice periods in service contracts should be set at a period of six months or less.				
Principle 9 **- Disclosure of Remuneration**					
The Company should provide clear disclosure of remuneration policy, level and mix of remuneration in the Company's annual report to enable investors to understand the link between remuneration paid to directors and key executives, and performance.		**Describe corporate governance practices related to principle**			
9.1	The Company should, as best practice, disclose in the annual report, the remuneration of each individual director and at least 5 top key executives (who are not directors) of the Company.			.	
9.2	The annual 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, with 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.				

Principle/Guidelines		Complied	Not Complied	Explanation for non-compliance / Comments	Proposed Action / Implementation Date
Principle 9 - Disclosure of Remuneration (Cont'd)					
9.3	The annual report should disclose, on a no-name basis with clear indication of which director or the CEO the employee is related to, remuneration details of employees who are immediate family members[5] of a director or the CEO whose remuneration exceeds S$150,000 during the year.			.	
9.4	The annual report should also contain details of employee share schemes to enable shareholders to assess the benefits and potential cost to the Company.				
	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.				
Principle 10 - Accountability					
The Board should present a balanced and understandable assessment of the Company's performance, position and prospects.		**Describe corporate governance practices related to principle**			
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).				

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

Principle/Guidelines		Complied Not Complied	Explanation for non-compliance / Comments	Proposed Action / Implementation Date
Principle 10 - Accountability (Cont'd)				
10.2	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.			
Principle 11 - Audit Committee				
The Board should establish an Audit Committee ("AC") with written terms of reference which clearly set out its authority and duties.		**Describe corporate governance practices related to principle**		
11.1	The AC should comprise at least 3 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.			
11.3	The AC should have explicit authority to investigate any matter within the terms of reference, full access to and co-operation by Management and full discretion to invite any director or executive officer to attend AC meetings, and reasonable resources to enable to discharge the functions properly.			

Principle/Guidelines			Complied	Not Complied	Explanation for non-compliance / Comments	Proposed Action / Implementation Date
Principle 11 - Audit Committee (Cont'd)						
11.4	The duties of the AC should include:-					
	(a)	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 AC should keep the nature and extent of such services under review, seeking to balance the maintenance of objectivity and value for money;				
	(b)	Review 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)	Review the adequacy of the Company's internal controls;				
	(d)	Review the effectiveness of the Company's internal audit function; and				
	(e)	Make recommendations to the Board on the appointment, re-appointment and removal of the external auditor and approve the remuneration and terms of engagement of the external auditor.				
11.5	The AC should meet with the external auditors and the internal auditors, without the presence of the Company's Management, at least annually.					

Principle/Guidelines		Complied / Not Complied	Explanation for non-compliance / Comments	Proposed Action / Implementation Date
Principle 11 - Audit Committee ("AC") (Cont'd)				
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 and ensure that arrangements are in place for the independent investigations of such matters and for appropriate follow up action.			
11.8	The Board should disclose the names of AC members and the details of the AC's activities in the Company's annual report.		.	
Principle 12 - Internal Controls				
The Board should ensure that the Management maintains a sound system of internal controls to safeguard the shareholders' investments and the Company's assets.		**Describe corporate governance practices related to principle**		
12.1	The AC should, with the assistance of internal and/or public accountants[6], review the adequacy of the Company's internal financial controls, operational and compliance controls and risk management policies and systems established by the Management at least annually.			
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.			

[6] Provided the public accountant is also the external auditor of the Company.

Principle/Guidelines		Complied Not Complied	Explanation for non-compliance / Comments	Proposed Action / Implementation Date
Principle 13 - Internal Audit				
The Company should establish an internal audit function that is independent of the activities it audits.		**Describe corporate governance practices related to principle**		
13.1	The Internal Auditor's ("IA") primary line of reporting should be to the Chairman of the AC although the IA would also report administratively to the CEO.			
13.2	The IA should meet or exceed the standards set out 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.			

Principle/Guidelines		Complied	Not Complied	Explanation for non-compliance / Comments	Proposed Action / Implementation Date
Principle 14 **- Communication with Shareholders**					
Companies should engage in regular, effective and fair communication with shareholders.		**Describe corporate governance practices related to principle**			
14.1 14.2	The Company should regularly convey pertinent information, gather views or inputs, and address shareholders' concerns. Information should be descriptive, detailed and forthcoming as possible and avoid boilerplate disclosures. The Company should disclose information on a timely basis. Investors (retail and institutional) should be entitled to same level of communication and disclosure. If information is inadvertently disclosed to one group, it should be made public as soon as possible				
Principle 15 **- Communication with Shareholders**					
The Company should encourage greater shareholder participation at AGMs, and allow shareholders the opportunity to communicate their views on various matters affecting the Company.		**Describe corporate governance practices related to principle**			
15.1	Shareholders should have the opportunity to participate effectively and to vote in AGMs, whether in person or in absentia.				
	The Company is encouraged to make the appropriate provisions in the Articles of Association to allow for absentia voting methods such as by mail, email, fax, etc, if the shareholders so consent.			.	

Principle/Guidelines		Complied	Not Complied	Explanation for non-compliance / Comments	Proposed Action / Implementation Date
Principle 15 - Communication with Shareholders (Cont'd)					
15.2	There should be separate resolutions at general meetings on each substantially separate issue.				
	The Company should avoid bundling resolutions unless the resolutions are interdependent and linked so as to form one significant proposal. Where resolutions are "bundled", the Company should explain the reasons and material implications.				
15.3	The chairpersons of the AC, NC and RC 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.				
15.4	The Company is encouraged to amend the 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	The Company is encouraged to prepare minutes or notes of general meetings, which include substantial comments or queries from shareholders and responses from the Board and make the minutes or notes available to shareholders upon their request.				
	The Company is encouraged to adopt best practices set out in the Operating and Financial Review ("OFR") Guide and disclose information when preparing the operating and financial review in the annual reports. This will be effective for all AGMs held on or after 1 January 2007.				

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Disclosure of Corporate Governance Arrangements

Note: SGX require listed companies to describe in the annual reports their corporate governance practices with specific reference to the principle 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 the 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:-

Principle/Guidelines		**Complied**	**Not Complied**	**Explanation for non-compliance / Comments**	**Proposed Action / Implementation Date**
GN1.3	Delegation of authority, by the Board to any Board Committee, to make decision on certain Board matters.				
GN1.4	The number of board and board committee meetings held in the year, as well as attendance of every board member at these meetings.				
GN1.5	The type of material transactions that require board approval under internal guidelines.				
GN2.2	Where the Company considers a director to be independent in spite of the existence of a relationship as stated in the Code, which 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.				
GN3.1	Relationship between the Chairman and CEO where they are related to each other.				
GN4.1	Composition of nominating committee.				
GN4.5	Process for the selection and appointment of new directors to the board.				

Principle/Guidelines		**Complied**	**Not Complied**	**Explanation for non-compliance / Comments**	**Proposed Action / Implementation Date**
GN4.6 GN5.1	Key information regarding directors, which directors are executive, non-executive or considered by the nominating committee to be independent. Process for assessing the effectiveness of the Board as a whole and the contribution of each individual director to the effectiveness of the Board.				
PN9	Clear disclosure of remuneration policy, level and mix of remuneration, procedure for setting remuneration and link between remuneration paid to directors and key executives, and performance.				
GN9.1	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.				
GN9.2	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.				
GN9.3	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 S$250,000 and include a breakdown of remuneration.				
GN9.4	Details of employee share schemes.				

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Principle/ Guidelines		Complied	Not Complied	Explanation for non-compliance / Comments	Proposed Action / Implementati on Date
GN11.8	Composition of Audit Committee and details of the committee's activities.				
GN12.2	Adequacy of internal controls, including financial, operational and compliance controls, and risk management systems.				

Annex 4: Examples of good corporate governance reporting practices

Disclosure of Current and Past Directorships

Twinwood Engineering (renamed Hup Soon in April 2007)

	Date of Appointment/ Last Re-election	Directorships or Chairmanships in Other Listed Companies
Anil Thadani	Dec 21, 2000/Apr 29, 2005	DSG International Limited Blue Dart Express Ltd (resigned wef Jul 4, 2005) Indraprastha Medical Corporation Ltd. (resigned wef Aug 4, 2005) Orchid Chemicals & Pharmaceuticals Ltd The Waterbase Limited Minor Corporation pcl Rajadamari Hotel Public Co. Ltd. Minor International Public Co. Ltd. Apollo Hospitals Enterprise Ltd (resigned wef Aug 4, 2005) Parkway Holdings Limited (resigned as Chairman wef Jul 15, 2005)
Bobby Choonavala	Dec 21, 2000/N.A.	–
Alain Ahkong Chuen Fah	Dec 21, 2000/May 23, 2003	Parkway Holdings Limited
Lim Chee Yong	Nov 5, 1997/Apr 29, 2005	Apex-Pal International Ltd
Lim Kok Yong	Feb 22, 1993/Apr 29, 2004	–
Ronald Ling Jih Wen	July 22, 2005/N.A.	Parkway Holdings Limited Strides Arcolab Ltd
Rajgopal Rajkumar	Dec 21, 2000/May 23, 2002	Orchid Chemicals & Pharmaceuticals Ltd*
Richard Seow Yung Liang	Dec 21, 2000/Apr 29, 2004	Parkway Holdings Limited Lee Hing Development Limited

* Alternate Director

The directors are pleased to present their report together with the financial statements of Autron Corporation Limited and the consolidated financial statements of the Economic Entity, being the Company and its controlled entities, for the year ended 30 June 2006 and the Auditor's Report thereon.

Directors

The directors of the Company in office at the date of this report are:

Professor Hang Chang Chieh
Chairman of the Board & Independent Director
Appointed as a Director on 15 March 2000; Last re-elected on 26 November 2003

Professor Hang is currently the Director for Centre for Management of Science & Technology, Faculty of Engineering, National University of Singapore. He is well renowned in the field of electronic engineering, specifically in the area of adaptive and intelligent control systems. He has served as a board member of several public and private companies. Professor Hang is the Chairman of the Nomination and Remuneration Committee.

During the past three years, Professor Hang has also served as a director of the following listed companies:

- MMI Holdings Limited*
- Trek2000 International*
- Stratech Systems Limited *(Resigned on 29 April 2006)*

* denotes current directorship

Mr Tan Cheng Leong
Group Executive Chairman
Appointed as a Director on 4 November 1998

Mr Tan is the Group Executive Chairman. He has more than 16 years experience in international banking and financial consultancy. Mr Tan sets the vision for the Company and is responsible for the overall strategic direction of the Company and its controlled entities. He is a member of the Nomination and Remuneration Committee.

During the past three years, Mr Tan has also served as a director of the following listed companies:

- Lee Metal Group Ltd *(1 July 2002 to 29 April 2005)*
- Eastern Publishing Ltd *(1 July 2002 to 24 February 2005)*
- Design Studio Furniture Manufacturer Limited *(1 July 2002 to 27 April 2005)*

Mr Samuel Wu Man Fan
Group President & CEO
Appointed as a Director on 3 July 2000; Last re-elected on 26 November 2003

Mr Wu is a co-founder of the AmericanTec Group. He has extensive experience in the distribution of electronics equipment, especially in China.

During the past three years, Mr Wu has not served as a director of any listed companies.

Dr Lim Boh Soon
Group Corporate Director
Appointed as a Director on 28 November 2002; Resigned on 25 January 2006

Dr Lim is a highly regarded and experienced professional from the banking and finance industry in Asia. He has been in the venture and development capital industry in Asia for more than 17 years. He brings with him more than 21 years of corporate experience having worked for various large local and multinational blue chip organisations. He sits on the Board of several organisations locally and overseas. He is a member of the Audit Committee.

Dr Lim has tendered his resignation on 22 July 2005 as one of the Company's Executive Directors. Dr Lim has completed the required notice period of six months and has ceased to be a director of the company on 25 January 2006. For a period of 6 months thereafter, he continued to work as a consultant on a part-time basis to 31 July 2006.

During the past three years, Dr Lim has also served as a director of the following listed companies:

- CSE Global Limited*

* denotes current directorship

Mr Lim Kheng Joo
Group Executive Director
Appointed as a Director on 8 March 2005; Last re-elected on 30 November 2005

Mr Lim joined the Company in 2001 and is the Group Executive Director of the Company. He has substantial experience in accounting and finance and is currently responsible for the Company's group financial and reporting functions, treasury, budgeting as well as strategic planning and driving integration within the group.

Mr Lim is also currently a director of several of the group controlled entities.

During the past three years, Mr Lim has not served as a director of any listed companies.

Mr Philip Loong Tien Choon
Independent Director
Appointed as a Director on 25 October 2004; Last re-elected on 26 November 2004

Mr Loong is a qualified Certified Public Accountant and Chartered Secretary. He has substantial experience in the management and consultancy fields. Mr Loong presently conducts his own management consultancy service company. He is also a member of the Singapore Institute of Directors and he serves on their sub-committee for membership and public relations.

Mr Loong is the Chairman of the Company's Audit Committee and a member of the Nomination Committee.

During the past three years, Mr Loong has also served as a director of the following listed companies:

- Lee Metal Group Ltd*
- EC Asia International Ltd*

* denotes current directorship

Mr Warwick Desmond Davies
Independent Director
Appointed as a Director on 28 May 1997; Last re-elected on 30 November 2005

Mr Davies was in the hospitality industry, owning and managing several hotels prior to his appointment to the Board in 1997. Mr Davies is a member of the Remuneration and Audit Committee.

During the past three years, Mr Davies has not served as a director of any listed companies.

Mr Christopher Tsim Lo Fai
Independent Director
Appointed as a Director on 6 May 2002; Last re-elected on 30 November 2005

Mr Tsim has extensive experience in the importation, development and distribution of electronics products. He was Director of the Company's Australian controlled entities, Microtel Australia Pty Ltd and Vision Tech (Aust) Pty Ltd prior to his current appointment.

During the past three years, Mr Tsim has not served as a director of any listed companies.

Board and Director Appraisals

Keppel Corporation

Board performance

Evaluation processes

Board

Each board member is required to complete a Board Evaluation Questionnaire and send the Questionnaire direct to the Independent Co-ordinator ("IC") within five working days. An "Explanatory Note" is attached to the Questionnaire to clarify the background, rationale and objectives of the various performance criteria used in the Board Evaluation Questionnaire with the aim of achieving consistency in the understanding and interpretation of the questions. Based on the returns from each of the directors, the IC prepares a consolidated report and briefs the Chairman of the Nominating Committee ("NC") on the report. Thereafter, the IC presents the report for discussion at a meeting of the non-executive directors ("NEDs"), chaired by the Lead Independent Director. Following the NED meeting, the IC will, together with the Chairman of the NC, brief the Chairman of the board on the report and the recommendations of the NEDs. The IC will thereafter present the report to the board together with the recommendations of the NEDs for discussion on the changes which should be made to help the board discharge its duties more effectively.

Individual Directors

The board differentiates the assessment of an executive director from that of a NED.

In the case of the assessment of the individual executive director, each NED is required to complete the executive directors' assessment form and send the form directly to the IC within five working days. It is emphasised that the purpose of the assessment is to assess each of the executive directors on their respective performance on the board (as opposed to their respective executive performance). The executive directors are not required to perform a self, nor a peer, assessment. Based on the returns from each of the NEDs, the IC prepares a consolidated report and briefs the Chairman of the NC on the report. Thereafter, the IC presents the report for discussion at a meeting of the NEDs, chaired by the Lead Independent Director. Following the NED meeting, the IC will, together with the Chairman of the NC, brief the Chairman of the board on the report and the recommendations of the NEDs. The IC will thereafter present the report to the board together with the recommendations of the NEDs. The Chairman of the NC will thereafter meet with the executive directors individually to provide the necessary feedback on their respective board performance with a view to improving their board performance and shareholder value.

As for the assessment of the performance of the NEDs, each director (both NEDs and executive directors) is required to complete the NEDs' assessment form and send the form directly to the IC within five working days. Each NED is also required to perform a self-assessment in addition to a peer assessment. Based on the returns, the IC prepares a consolidated report and briefs the Chairman of the NC on the report. Thereafter, the IC presents the report for discussion at a meeting of the NEDs, chaired by the Lead Independent Director. Following the NED meeting, the IC will, together with the Chairman of the NC, brief the Chairman of the board on the report and the recommendations of the NEDs. The IC will thereafter present the report to the board together with the recommendations of the NEDs. The Chairman of the NC will thereafter meet with the NEDs individually to provide the necessary feedback on their respective board performance with a view to improving their board performance and shareholder value.

Chairman

The Chairman Evaluation Form is completed by each NED and sent directly to the IC within five working days. Based on the returns, the IC prepares a consolidated report and briefs the Chairman of the NC on the report. Thereafter, the IC presents the report for discussion at a meeting of the NEDs, chaired by the Lead Independent Director. Following the NED meeting, the IC will, together with the Chairman of the NC, brief the Chairman of the board on the report and the recommendations of the NEDs. The IC will thereafter present the report to the board together with the recommendations of the NEDs.

Performance criteria

The performance criteria for the board evaluation are in respect of the board size and composition, board independence, board processes, board information and accountability, board performance in relation to discharging its principal functions, board committee performance in relation to discharging their responsibilities set out in their respective terms of reference, and financial targets which includes return on capital employed, return on equity, debt/equity ratio, dividend pay-out ratio, economic value added, earnings per share, and total shareholder return (i.e. dividend plus share price increase over the year).

The individual director's performance criteria are categorised into five segments viz. (1) interactive skills (under which factors as to whether the director works well with other directors, and participates actively are taken into account); (2) knowledge (under which factors as to the director's industry and business knowledge, functional expertise, whether he provides valuable inputs, his ability to analyse, communicate and contribute to the productivity of meetings and his understanding of finance and accounts are taken into consideration; (3) director's duties (under which factors as to the director's board committee work contribution, whether the director takes his role of director seriously and works to further improve his own performance, whether he listens and discusses objectively and exercises independent judgment, and meeting preparation are taken into consideration); (4) availability (under which the director's attendance at board and board committee meetings, whether he is available when needed, and his informal contribution via e-mail, telephone, written notes etc are considered, and (5) overall contribution, bearing in mind that each director was appointed for his/her strength in certain areas which, taken together with the skill sets of the other directors, provides the board with the required mix of skills and competencies.

The assessment of the Chairman of the board is based on his ability to lead, whether he established proper procedures to ensure the effective functioning of the board, whether he ensured that the time devoted to board meetings were appropriate (in terms of number of meetings held a year and duration of each board meeting) for effective discussion and decision-making by the board, whether he ensured that information provided to the board was adequate (in terms of adequacy and timeliness) for the board to make informed and considered decisions, whether he guides discussions effectively so that there is timely resolution of issues, whether he ensured that meetings are conducted in a manner that facilitates open communication and meaningful participation, and whether he ensured that board committees are formed where appropriate, with clear terms of reference, to assist the board in the discharge of its duties and responsibilities.

CONFIDENTIAL

Director and Executive Remuneration

Autron Corporation

Remuneration Report

This report provides the remuneration policy and structure in place for the directors and senior executives of Autron Corporation Limited (the Company). It is the responsibility of the Board of Directors to put in place the remuneration policy and structure.

Remuneration Philosophy

The Board's remuneration policy is to ensure that remuneration package properly reflects the person's duties and responsibilities; and are competitive in attracting, retaining and motivating employees of the highest quality.

Remuneration Committee (RC)

The RC makes recommendations to the Board on Directors' fees, allowances and remuneration of the Executive Directors. Remuneration is set by reference to independent data, external professional advice, the company's circumstances and the requirement to attract key management. RC members abstain from deliberations in respect of their own remuneration.

Remuneration Structure

In accordance with best practice corporate governance, the structure of non–executive director and executive director/senior executive remuneration is separate and distinct.

Executive directors and senior executives may receive both fixed remuneration and variable remuneration based on the achievement of specific goals related to the performance of the consolidated entity (including operational results and cash flows). Non-executive directors do not receive any performance related remuneration. The performance of the executive directors and senior executives is measured against the operational results and cash flow generated within the financial year. As for the quantum of variable remuneration is also related to the quantum of operational results and cash flow position. Non-executive directors do not receive any performance related remuneration.

Non Executive Director Remuneration

Objective

The Board will set a remuneration amount for each director which provides the company with the ability to attract and retain directors of good caliber whilst incurring a cost which is acceptable to shareholders.

Structure

Each director receives a fixed remuneration which is reviewed annually. The fee of the directors takes into account the geographical location of the directors, as some of the directors are located in Australia and some are in Singapore. One of the non-executive directors' remuneration is higher due to the role of Non-Executive Chairmanship to the Board.

The fees payable to Non-executive in their capacity as directors of the company is payable on a quarterly basis of each financial year.

Executive Director and Senior Executive Remuneration

Objective

The company aims to reward executives with a fixed and variable of remuneration commensurate with their position and responsibilities within the company and so as to:

- reward executives for company, business and individual performance against targets set by reference to appropriate benchmarks
- link reward with the strategic goals and performance of the company; and
- ensure total remuneration is competitive by market standards

Structure

There is service/employment contracts entered with the executive directors and senior executives. The appointment of executive directors is every 3 years for each director and by way of rotation to retire and re-appointment.

Remuneration consists of the fixed remuneration and variable remuneration.

Fixed Remuneration

Objective

The fixed remuneration to executive includes basic salary, fee and benefits in kind. The fixed remuneration is reviewed annually by the Remuneration Committee and take into account the individual performance, experience and responsibility. Benefits in kinds include allowance on transportation, petrol for car and medical insurance. Pension contribution is provided on a statutory approved scheme.

The objective is to provide a basic level of remuneration which is both appropriate and is competitive in the market.

Structure

The fixed remuneration is given in the form of cash and fringe.

Variable Remuneration

Objective

The objective is to reward the achievement of the company's operational targets by the executives and to provide incentives to the executives to achieve the operational targets. And as such the cost to the company is reasonable in the circumstances.

Structure

Actual payment granted would depend on the extent to which specific operating targets set at the beginning of the financial year are met. Typically included measures are achievement of net profit before tax and leadership contribution.

The variable remuneration of executive directors ranges from 1 month to 2 month of their basic salary and is assessed on the entity's operational results and cash flow position. The variable remuneration of senior executives average 2% of the net profit before tax of the entity they are responsible for. For payment to be made, the entity must first show a positive cash flow position for the financial year.

On an annual basis, the Remuneration Committee will evaluate the overall performance of the company. After the evaluation of the company performance, the Remuneration Committee will propose the amount of bonuses the individual executive Director are entitled to. Besides the non-quantifiable targets like risk management, product management and leadership contribution, the two quantifiable targets are operational results and surplus cash flow of the entity. Currently, the company has not specified any quantum of bonuses to the Executive and achievement of the bonuses are based upon discretion of the Remuneration Committee.

The two main criteria (operational result and cash position) that are set to determine the quantum of the bonuses is because these two factors are quantifiable and could objectively measure the performance of the executives. In the process of evaluating the variable remuneration, non quantifiable factors like leadership, strategic contributions are all taken into consideration.

In FY 2006, all executive directors and executives are entitled to a bonus equaling 1 month of the normal underlying salary (with exception of Mr Lim Tow Hin, Colin and Koh Kok Choon who are entitled to a 2 month bonus). All bonuses relating to FY 2006 have been paid and no bonus amounts have been withdrawn.

The current variable remuneration constitutes less than 10% of the total remuneration of the executive. Moving forward, the Remuneration Committee will introduce a new incentive based compensation taking into considerations of short and long term goals of the entity. The objective is to introduce a total remuneration package that would have a higher proportion in variable remuneration than the current 10%.

Remuneration of Directors and Senior Executives

The Remuneration Committee is responsible for making recommendations to the Board on remuneration policies and packages applicable to the Board members and senior executives of the Company. The Board's remuneration policy is to ensure that the remuneration package properly reflect the person's duties and responsibilities; and are competitive in attracting, retaining and motivating employees of the highest quality.

Executive directors and senior executives may receive bonuses based on the achievement of specific goals related to the performance of the consolidated entity (including operational results and cash flows). Non-executive directors do not receive any performance related remuneration.

The Directors of Autron Corporation Limited during the financial year were:

Name	Position	Appointment/Resignation date
Professor Hang Chang Chieh	Independent Director	Appointed in March 2000
Tan Cheng Leong	Group Executive Chairman	Appointed in November 1998
Samuel Wu Man Fan	Group President & CEO	Appointed in July 2000
Dr Lim Boh Soon	Group Corporate Director	Appointed in November 2002/ Resigned in January 2006
Lim Kheng Joo	Group Executive Director	Appointed in March 2005
Warwick Desmond Davies	Independent Director	Appointed in May 1997
Philip Loong Tien Choon	Independent Director	Appointed in October 2004
Christopher Tsim Lo Fai	Independent Director	Appointed in May 2002

Details of the nature and amount of each major element of the emoluments of each director and the five highest paid executive officers of the Company and the consolidated entity are:

(a) Compensation of Directors and 5 Key Management Personnel (top 5 highly paid) for year ended 30 June 2006

	.... Short-Term				.....Post Employment.....						
	Salary & Fees $	Cash Bonus $	Non-Monetary Benefits* $	Others** $	Super-annuation/ CPF/MPF $	Retirement Benefits $	Long-Term Incentive Plans $	Termination Benefits $	Share-based Payments Options $	Total $	Total Performance related %
Directors											
Tan Cheng Leong	305,703	28,595	49,909	–	7,402	N.A.	N.A.	N.A.	N.A.	391,609	9%
Samuel Wu Man Fan	297,202	22,015	–	–	2,068	N.A.	N.A.	N.A.	N.A.	321,285	7%
Lim Kheng Joo	170,593	16,247	–	–	8,132	N.A.	N.A.	N.A.	N.A.	194,972	10%
Dr Lim Boh Soon (Resigned in January 2006)	100,938	13,647	–	–	5,418	N.A.	N.A.	N.A.	N.A.	120,003	14%
Professor Hang Chang Chieh	58,489	–	–	–	–	N.A.	N.A.	N.A.	N.A.	58,489	–
Warwick Desmond Davies	36,000	–	–	–	3,240	N.A.	N.A.	N.A.	N.A.	39,240	–
Christopher Tsim Lo Fai	36,000	–	–	–	3,240	N.A.	N.A.	N.A.	N.A.	39,240	–
Philip Loong Tien Choon	29,245	–	–	–	–	N.A.	N.A.	N.A.	N.A.	29,245	–
Subtotal	1,034,170	80,504	49,909	–	29,500	–	–	–	–	1,194,083	
Top 5 Executives											
Stephen Wu Hon Fan	145,156	12,096	–	86,156	2,068	N.A.	N.A.	N.A.	N.A.	245,476	8%
Dick Kam Yun Kwong	113,726	9,477	–	99,313	2,068	N.A.	N.A.	N.A.	N.A.	224,584	8%
Koh Kok Choon	154,605	25,768	5,723	–	21,645	N.A.	N.A.	N.A.	N.A.	207,741	17%
Colin Lim Tow Hin	154,605	25,768	5,073	–	21,645	N.A.	N.A.	N.A.	N.A.	207,091	17%
Allen Ong Pang Kheng	146,223	12,185	–	9,748	6,019	N.A.	N.A.	N.A.	N.A.	174,175	8%
Subtotal	714,315	85,294	10,796	195,217	53,445	–	–	–	–	1,059,067	
Grand total (2006)	1,748,485	165,798	60,705	195,217	82,945	–	–	–	–	2,253,150	

For the current financial year, all key management personnel had met their respective service and performance criteria set by the remuneration committee.

(b) Compensation of Directors and 5 Key Management Personnel (top 5 highly paid) for year ended 30 June 2005

	.... Short-Term				.....Post Employment.....						
	Salary & Fees $	Cash Bonus $	Non-Monetary Benefits* $	Others** $	Super-annuation/ CPF/MPF $	Retirement Benefits $	Long-Term Incentive Plans $	Termination Benefits $	Share-based Payments Options $	Total $	Total Per-formance related %
Directors											
Tan Cheng Leong	367,549	28,077	50,539	–	12,449	N.A.	N.A.	N.A.	N.A.	458,614	8%
Samuel Wu Man Fan	355,879	27,200	–	–	2,044	N.A.	N.A.	N.A.	N.A.	385,123	8%
Dr Lim Boh Soon	220,146	16,750	–	–	8,918	N.A.	N.A	N.A.	N.A.	245,814	8%
Lim Kheng Joo	159,908	10,369	–	11,451	9,059	N.A.	N.A.	N.A.	N.A.	190,787	6%
Professor Hang Chang Chieh	55,580	–	–	–	–	N.A.	N.A.	N.A.	N.A.	55,580	–
Warwick Desmond Davies	36,000	–	–	–	3,240	N.A.	N.A.	N.A.	N.A.	39,240	–
Christopher Tsim Lo Fai	36,000	–	–	–	3,240	N.A.	N.A	N.A.	N.A.	39,240	–
Philip Loong Tien Choon	19,143	–	–	–	–	N.A.	N.A	N.A.	N.A.	19,143	–
Subtotal	1,250,205	82,396	50,539	11,451	38,950	–	–	–	–	1,433,541	
Top 5 Executives											
Stephen Wu Hon Fan	143,474	11,956	–	74,671	2,044	N.A.	N.A	N.A.	N.A.	232,145	8%
Allen Ong Pang Kheng	143,574	11,964	–	49,526	9,125	N.A.	N.A.	N.A.	N.A.	214,189	8%
Colin Lim Tow Hin	150,804	25,134	6,237	–	21,113	N.A	N.A.	N.A	N.A.	203,288	17%
Koh Kok Choon	150,804	25,134	5,655	–	21,113	N.A	N.A.	N.A.	N.A.	202,706	17%
Lim Tock Yen	163,674	12,443	–	7,657	8,310	N.A.	N.A.	N.A.	N.A.	192,084	8%
Subtotal	752,330	86,631	11,892	131,854	61,705	–	–	–	–	1,044,412	
Grand total (2005)	2,002,535	169,027	62,431	143,305	100,655	–	–	–	–	2,477,953	

* Non-Monetary Benefits – refers to car benefits/housing benefits/other non monetary benefits

** Other – refers to performance commission, travel allowance, other not classified under salaries, bonus and non monetary benefits

Key management personnel's contract with Autron as follows:

Name	Contract Duration	Notice Period for termination	Termination payments provided for under the contract
Professor Hang Chang Chieh	YR 2006 AGM	–	–
Tan Cheng Leong	Principal Executive Officer of the Company, not required to retire by rotation – ASX listing Rule 14.4.	6 months' notice in writing	Equal to 6 months' salary in lieu of notice
Samuel Wu Man Fan	YR 2006 AGM	6 months' notice in writing	Equal to 6 months' salary in lieu of notice
Lim Kheng Joo	7 March 2008, to further extend to YR 2008 AGM	6 months' notice in writing	Equal to 6 months' salary in lieu of notice
Philip Loong Tien Choon	31 October 2007, to further extend to YR 2007 AGM	–	–
Warwick Desmond Davies	YR 2008 AGM	–	–
Christopher Tsim Lo Fai	YR 2008 AGM	–	–

Note: Director is entitled to serve for period of 3 years and required to retire by rotation and seek re-election by shareholders during AGM.

Name	Contract Duration	Notice Period for termination	Termination payments providec for under the contract
Stephen Wu Hon Fan	No fixed duration	1 month notice in writing	–
Allen Ong Pang Kheng	No fixed duration	2 months' notice in writing	Equal to 2 months' salary in lieu of notice
Colin Lim Tow Hin	No fixed duration	S&P Agreement for period of 3 years not be entitled to terminate on or before 17 March 2007	S&P Agreement for period of 3 years not be entitled to terminate on or before 17 March 2007
		3 months' notice in writing	Equal to 3 months' salary in lieu of notice
Koh Kok Choon	No fixed duration	S&P Agreement for period of 3 years not be entitled to terminate on or before 17 March 2007	S&P Agreement for period of 3 years not be entitled to terminate on or before 17 March 2007
		3 months' notice in writing	Equal to 3 months' salary in lieu of notice
Ho Weng Wah	No fixed duration	2 months' notice in writing	Equal to 2 months' salary in lieu of notice
Run Run Cheng Hwa Ming	Up to 31 July 2007	6 months' notice in writing	Equal to 6 months' salary in lieu of notice

CONFIDENTIAL

Internal Controls and Risk Management

Olam International

Risk Management

Risk Governance Process

At Olam, the Risk Governance process is characterized by Independent External Assurance as well as Internal Management Assurance.

External Assurance

The Board Risk Committee is the Apex Body for Risk Management in Olam. This Committee is headed by an external Non-Executive Director. The Board Risk Committee is responsible for determining the Company's Overall Risk Capital requirements and recommending it to the Board for approval. It is also responsible for setting direction for the Company's Risk Control & Management Function and advising the function on areas of risk measurement and control. The Company's risk capital that is set apart each year is expressed as a percentage of its equity capital.

Internal Assurance

The Executive Risk Committee is responsible for driving Risk Management policies and procedures across the company, ensuring compliance to the Company's risk management policy and allocating the Risk Capital approved by the Board to various Businesses, Geographies and across various risk categories.

Risk Middle Office

The Risk Management process has been divided into the Front Office, Risk Middle Office and Back Office. There is a clear Segregation of Authority, Reporting and Oversight between Front, Middle and Back Office.

The Risk Middle Office is responsible for daily data capture, reconciliation of third party confirmations, generation of Risk Exposure Reports and control/monitoring of exposures.

Enterprise Risk Management (ERM)

We continuously track and monitor the risks that emanate from our supply chain activities.

Under the Market Risk Category we monitor the Commodity Price Risk, Basis (Spread) Risk, and Currency Risk. We have built a substantial data base of Historical Prices that we use for calculation of Volatilities. The Risk system draws data from our Order Processing System and Oracle Financials to generate Exposure Reports. The Volatilities and Exposures are used in our Value at Risk ("VaR") methodology for arriving at the Risk Metrics.

In the Sovereign, Credit & Counter Party Risk Category we monitor the Political & Sovereign Risks, Customer Credit Exposures, and Supplier Advances. All Counter Parties are rated internally and default rates are set based on the rating of the counter party. Our Political Risk Insurance cover provides the necessary safeguards against political and sovereign events, while credit insurance covers in selective markets provides the required credit cover.

The Operational Risks relating to our Internal Processes, People, Current and Fixed Assets are monitored through regular Internal & External Audits. The Insurable Operational Risks relating to Inventories, Transits, Property are covered through appropriate Insurance Policies.

The Information Risks relating to EDP Systems and Data Security & Integrity are managed through detailed IT Policies & Control Procedures. The Company has also formulated a Disaster Recovery Plan for its EDP Systems.

Developments during the Year

In 2006, we continued to update our risk management systems in keeping with the growth of our various businesses. We also fine-tuned our ERM Framework by enhancements in Secured Internet based Risk Exposure Reporting System for certain business segments and in the area of credit risk management. We further augmented our risk management capabilities by introducing several new risk management tools like "Scenario Analysis", "Stress Testing", "Worst Moves Impact", and "Back Testing".

In 2006, we had an average one day VaR on market risk of US$5.1 million or 1.54% of our equity, compared to US$4.7 million or 1.59% of our equity in 2005 despite a sales volume growth of 24.2% and revenue growth of 29.4% in 2006.

"ERM is best defined as a continuous process that identifies measures mitigates and monitors Uncertainty and Exposure to that Uncertainty on an Enterprise wide basis. It is part of a larger process of financial optimisation. At Olam, our focus is on fostering a Culture of Compliance and on cultivating a respect for Risk"

Rajeev Kadam,
Vice President,
Internal Compliance.

Left:
On line risk management at Olam.

Internal Audit

The Internal Audit function is established to support the governance process and provide a source of confidence to the ACC that there is sound managerial control over all aspects of the operations of Olam including statutory compliances, accounting, asset management and control systems.

The Internal Audit Head reports directly to the Chairman of the ACC with a dotted line relationship to the CEO of the Company. The Internal Audit team has full, free and unrestricted access at all times to all books, personnel, documents, accounts, property, vouchers, records, correspondence and other data of the Company. The Internal Auditors also have the right to enter any premises of Olam and to request any officer to furnish all information and such explanations deemed necessary for them to form an opinion on the probity of action, adequacy of systems and/or of controls.

The scope of Internal Audit is reasonably comprehensive to enable the effective and regular review of all operational, financial and related activities. The Internal Audit coverage extends to all areas of the Company and its controlled entities, and includes financial, accounting, administrative, computing and other operational activities.

The ACC reviews the proposed scope of the Internal Audit function and the performance of the Internal Audit function. It ensures that no limitation on audit has been interposed. The Internal Audit's summary of findings and recommendations are reviewed and discussed at the ACC meetings.

Internal Controls and Risk Management

The Company's internal control structure consists of the policies and procedures established to provide reasonable assurance that the organisation's related objectives would be achieved.

At Olam, the internal control extends beyond the accounting and finance function – its scope is Company-wide and touches all activities of the Company.

Our Field Operations Manual (FOM) is the main guidebook which prescribes the process and documentation requirements for all our procurement, grading, sorting, processing, storage, transits and shipment of our products. Strict adherence to this FOM is the key to our control over operational risks. To ensure that this is happening, we have periodical internal and external audit reviews.

To round off the process, we link the Internal Audit findings into the manager's performance evaluation system to ensure the desired influence on behaviour.

The Company's Enterprise Risk Management (ERM) framework covers Market Risks, Credit & Counter Party Risks, Operational Risks and Information Risks. The Company has a Risk Committee and an independent Risk Control function to measure and monitor Market Risks and Credit & Counter Party Risks. Our risk management system is outlined on pages 48 and 49.

Risk Committee

Our Non-executive Director, Mr. Tse Po Shing chairs the Risk Committee. Mr. Robert Tomlin, Mr. N.G. Chanrai, Mr. Sunny Verghese and Mr. Sridhar Krishnan are the other members of this committee. The Risk Committee met two times during the year under review and its terms of reference are outlined below:

(a) To review the adequacy and effectiveness of our Group's external, market and internal risk management policies and systems;

(b) To review and recommend risk limits and budgets;

(c) To review major non-compliances with risk policies; and

(d) To review political and sovereign risk, and the management and insurance thereof.

Internal Controls

The Board affirms its ultimate responsibility for the Group's system of internal control which includes the establishment of an appropriate control environment and framework as well as reviewing its adequacy and integrity to safeguard shareholders' investments and the Group's assets. In view of the limitations that are inherent in any system of internal control, this system is designed to manage, rather than eliminate, the risk of failure to achieve corporate objectives. Accordingly, it can only provide reasonable but not absolute assurance against material misstatement, operational failures, poor judgment in decision-making, human errors losses fraud or other irregularities. The system of internal control covers, financial, organizational, operational and compliance controls and risk management.

The Board appointed a firm of consultants to assist it in establishing a risk management framework for the Group and carrying out an Enterprise Risk Management ("ERM") review of a significant subsidiary. Besides strengthening risk management functions, the Enterprise Risk Management project was carried out to sensitise employees within the significant subsidiary more strongly to risk identification, evaluation, control, ongoing monitoring and reporting.

The formalisation of the enterprise risk management framework of the significant subsidiary encompasses the following key elements:

- The issuance of a Risk Management Policy and Procedure document, which depicts the lines of reporting and responsibility at the Board, Audit Committee and Management levels. The risk management structure enhances risk oversight and management, and integrates expectation on risk management into quarterly performance management and reporting;

- Holding of risk awareness sessions for all operational managers/officers of the various business units within the significant subsidiary to inculcate an understanding of risks as they related to the business of the subsidiary;

- Workshops and interviews were conducted with Managing Director and operational managers/executives from the significant subsidiary. A database of all principal business risks and controls has been created, with the information filtered to produce a detailed risk register, and risk profiles for the subsidiary concerned. Key risks to the subsidiary were identified and scored for likelihood of the risks occurring and magnitude of the impact;

- A risk profile of the significant subsidiary was developed which together with a summary of the key findings, was discussed in the Audit Committee before being presented to the Board for consideration; and

- Periodic cycles of internal audit carried out by an independent firm of consultants, on the significant subsidiary, which highlighted areas of concerns, including improvement opportunities for Management to strengthen internal control.

The next steps in the Company risk management process include, establishing and formalising the risk management reporting framework within the Group, including submission of periodic risk management reports to the Audit Committee and the Board.

Apart from risk management, the Board has put in place the following control processes to enhance the system of internal control:

- Diligent review of the quarterly financial results and reports and evaluating the reasons given for any unusual variances noted thereof by the Board and Audit Committee;

- Close involvement of the Executive Directors in the running of the Group's operations. The Executive Directors report to the Board on significant changes in the business and external environmental factors that may impact the Group's operations; and

- An organisational structure with formally defined lines of responsibility and delegation of authority. A process of hierarchical reporting has been established, which provides for a documented and auditable trail of accountability. Policies and procedures in place and enforced in the operating subsidiaries, include operational and financial, health and safety, training and development, equality of opportunity, staff performance and actions upon serious misconduct. These policies and procedures provide for continuous assurance to be given at increasingly higher levels of Management and, finally, to the Board.

Internal Audit

The Board outsourced its internal audit function to a firm of consultants to carry out internal audit review of the significant subsidiary using a risk-based approach. The internal auditors report to the Audit Committee and are independent of the activities it audits.

The internal auditors assist the Audit Committee to independently review the system of internal control as established by Management of the subsidiary, which provides the Board with much of the assurance it requires regarding the adequacy and integrity of the subsidiary's system of internal control. The internal auditors review the internal controls in the key activities of the significant subsidiary's businesses based on a 3-year internal audit strategy and a detailed annual internal audit plan approved by the Audit Committee. The internal auditors adopt a risk-based approach and prepare its audit strategy and plan based on the risk profiles of the subsidiary. Recommendations for improvements noted by the internal auditors are followed up for implementation by Management.

During the financial year ended 31 December 2005, the internal auditors carried out 3 cycles of internal audit to test the existence and effectiveness of the system of internal control of the significant subsidiary.

CONFIDENTIAL

Whistleblowing Policy

Sembcorp Marine

WHISTLE-BLOWING **POLICY**

Although the Code of Governance does not specify a mandatory requirement for audit committees to facilitate whistle-blowing, SembCorp Marine believes that in order to evince the Group's unyielding determination to constantly raise the bar of good governance practice, it should readily foster an environment conducive to responsible and constructive whistle-blowing.

The Group thus adopts a constructive whistle-blowing culture to detect and deter wrongdoing in preparing and implementing accurate and complete financial policies, reports and materials as well as the internal controls essential to support its financial and accounting systems.

Demonstrating its pledge to good corporate governance, the Group provides an avenue for employees to bring their complaints and gripes responsibly up to higher levels without fear of reprisal. The establishment of the whistle-blowing structure also augments the Group's ability to detect potential fraud, providing another level of comfort and assurance to foreign investors.

Details of SembCorp Marine Whistle-blowing Policy

SembCorp Marine established its *"Policies And Procedures For Reporting Possible Improprieties In Matters Of Financial Reporting Or Other Matters"* in 2003, to ensure that any employee of the Group may submit complaint in good faith regarding accounting, internal controls or auditing matters to the Management without fear of dismissal or retaliation.

In order to facilitate the reporting of employee complaints, SembCorp Marine adheres to the Code of Corporate Governance adopted by the Singapore Exchange Securities Trading Ltd.

It is the policy of SembCorp Marine to encourage all employees within the Group to report any possible improprieties in matters of financial reporting or other matters that they may encounter to the Audit Committee or any other committees established by the Audit Committee for such purposes. "Possible improprieties" refers to any activity or conduct or omission by an employee or officer of SembCorp Marine or any auditing firm providing external or internal auditing services to SembCorp Marine relating to accounting, internal controls or internal accounting controls that are questionable or not in accordance with generally accepted accounting practices.

As SembCorp Marine does not condone any retaliatory action taken against any employee that has filed a complaint, it may institute disciplinary action against any person found to have taken retaliatory action. "Retaliatory action" refers to the use of, or any attempt to use, authority by any employee or officer of the Group to influence or to interfere with the right of another employee to report any possible improprieties.

Any complaint alleging retaliatory action shall be received, reviewed and investigated by SembCorp Marine in the same manner as any complaint alleging possible improprieties. A "complaint" therefore refers to any complaint alleging either possible improprieties or retaliatory action.

An overview of the procedures for the receipt, retention and treatment of any complaint are summarised in the following sections and flow diagram.

Procedures

Submission of Complaint

Every employee of the Group has a right to file a complaint, which can be submitted directly to the Internal Audit department and marked the attention of Assistant Vice President, Internal Audit.

Confidentiality of Identity

Employees are encouraged to disclose their identities when submitting complaints. Once disclosed, however, the identities of the employees will be kept confidential unless:

- the identity of the employee, in the opinion of the Audit Committee, is material to any investigation
- it is required by law, order or direction of any court, regulatory body or stock exchange
- the Audit Committee is of the opinion that it would be in the best interests of the Group to disclose the identity

Receiving, Recording and Retention of Complaint

The Internal Audit department maintains a register to record all complaints received, including the dates and natures of the complaints. This register can be made available for inspection upon any request approved by the Audit Committee.

Publication and Maintenance of Avenues for Submission of Complaints

The Group Human Resource takes all reasonable efforts to notify all employees and officers of the Group of the existence of these policies and procedures. The Internal Audit department will also establish and maintain avenues for the confidential submission and receipt of complaints.

Review and Investigation of Complaint

Upon receipt of a complaint, the Internal Audit department reviews and investigates the complaint and reports its findings to the Audit Committee and the Group President & CEO together with any recommendation for remedial action. If Internal Audit decides that the complaint may be better dealt with under other existing resolution procedures within the Group, it may forward the complaint to the relevant unit responsible for the administration of such complaint resolution procedures.

Notwithstanding these procedures, the Audit Committee may still consider situations where the complaint is against or involves Internal Audit directly or indirectly or other situations where there is no appropriate complain resolution procedure within the Group. At any stage of review or investigation, the Committee may still forward the complaint directly to the Chairman of the Audit Committee for determination.

Determination by the Audit Committee

Upon receipt of any complaint from Internal Audit, the Audit Committee may:

- conduct its own investigation or review
- instruct Internal Audit to conduct further investigation or review
- instruct the relevant management to take such remedial action as it deems appropriate
- engage relevant third parties to review, commence or conduct further investigations
- engage relevant third parties to take remedial action, if appropriate
- take any other action it deems in the best interests of the Group

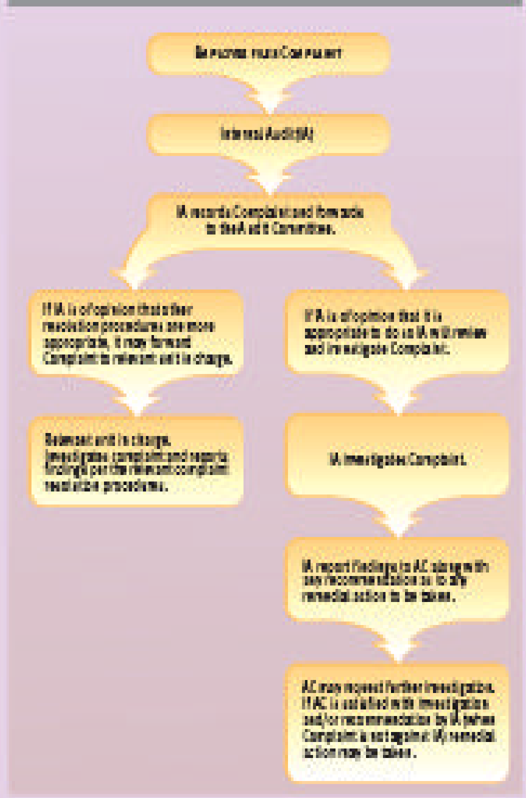
Abuse of the Policies and Procedures

Upon reviewing the facts of the complaint, the Audit Committee may determine that an employee has made a complaint frivolously, in bad faith, or in abuse of the policies and procedures. With the Committee's determination, SembCorp Marine will reserve the right to take any action against the employee.

REVIEW OF POLICY

The Legal Department reviews the whistle-blowing policy on a regular basis and recommends any amendments to the Audit Committee for its endorsement. Only with the Committee's written approval, can the amendments be tabled to the Board for final approval.

PROCEDURES FOR RECEIPT, RETENTION AND TREATMENT OF COMPLAINT



Annex 5: Examples of poor corporate governance reporting practices

Disclosure of Current and Past Directorships

"Mr XYZ is a Director of a number of public listed companies including Company A, Company B, Company C, Company D and Company E.".

Author note: This was not a complete listing of all the listed company directorships held by the director.

Board and Director Appraisals

"Based on the recommendations by the NC, the Board has established processes and objective performance criteria for evaluating the effectiveness of the Board as a whole and the effectiveness of individual directors."

Director and Executive Remuneration

Remuneration band	No. of directors	No. of executives
Band A	3	5
Band B	1	0
Band C	1	0

Band A means between $0 and $249,999
Band B means between $250,000 and $499,999
Band C means above $500,000

Internal Controls and Risk Management

"The Group's internal controls and systems are designed to provide reasonable assurance to the integrity and reliability of the financial information."

Annex 6: The Australian Institute of Company Directors' (AICD) training programs for different types of directors

Essential Program

Program	Modules	Elective Modules	Target Audience
AICD Directors Essentials	The Role of the Director and the Board Introduction to Board Meetings and Governance Introduction to Financial Statements for Directors Assessing Company Performance for Directors	Introduction to the Strategic Role of the Director Issues for Director-Owners Non-For-Profits: Issues for Directors Leadership: The Director's Role Trade Practices Risk: Issues for Directors	Time-poor executives and new directors; sole directors and directors of family businesses; directors for not-for profits

Company Directors' Course and Associated Programs

Program	Modules	Target Audience
ACID Company Directors	The Practice of Directorship Directors' Duties and Responsibilities Fundamentals of Financial Statements Assessing Company Performance Strategic Direction Assessing Strategy The Legal Environment Risk:Issues for Boards Improving Board Effectiveness Learning into Practice	Those requiring an in-depth knowledge of a director's role
International Company Directors Course (ICDC)	The Role of the Board and the Practice of Directorship Directors' Duties and Responsibilities Fundamentals of Financial Statements Financial Issues for Directors The Legal Environment Risk:Issues for Boards Developing Strategy: The Board's Role Directing Strategic Progress Achieving Board Effectiveness Learning into Practice	
Associated Programs	Directors Duties and Responsibilities Update Company Directors Course Update The ASX Principles and Your Board Board, Director and CEO Assessment Boards that Work Capital Raising Director Selection Exectuive Director Influencing Strategic Thinking The Strategic Board Strategic Financial Skills: Financial Analysis for Sound Strategic Decisions	Target audience is specified by AICD for each program

Advanced Program

Program	Target Audience
Mastering the Boardroom	Past participants of the CDD with 3 years' director experience and Fellows of AICD or equivalent international organisation
The Board and Reporting	Past CDC participants, experienced directors and consultants to boards
The Chairman	Chairmen, deputy chairmen and those preparing themselves for this role
High Performance Boards	Experienced directors