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**CODE OF CORPORATE GOVERNANCE**

**2 MAY 2012**

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## **BOARD MATTERS**

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### **THE BOARD'S CONDUCT OF AFFAIRS**

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#### **Principle:**

- 1 Every company should be headed by an effective Board to lead and control the company. The Board is collectively responsible for the long-term success of the company. The Board works with Management to achieve this objective and Management remains accountable to the Board.

#### **Guidelines:**

- 1.1 The Board's role is to:
  - (a) provide entrepreneurial leadership, set strategic objectives, 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 risks to be assessed and managed, including safeguarding of shareholders' interests and the company's assets;
  - (c) review management performance;
  - (d) identify the key stakeholder groups and recognise that their perceptions affect the company's reputation;
  - (e) set the company's values and standards (including ethical standards), and ensure that obligations to shareholders and other stakeholders are understood and met; and
  - (f) consider sustainability issues, e.g. environmental and social factors, as part of its strategic formulation.
- 1.2 All directors must objectively discharge their duties and responsibilities at all times as fiduciaries in the interests of the company.
- 1.3 The Board may delegate the authority to make decisions to any board committee but without abdicating its responsibility. Any such delegation should be disclosed.

- 1.4 The Board should meet regularly and as warranted by particular circumstances, as deemed appropriate by the board members. Companies are encouraged to amend their Articles of Association (or other constitutive documents) to provide for telephonic and video-conference meetings. The number of meetings of the Board and board committees held in the year, as well as the attendance of every board member at these meetings, should be disclosed in the company's Annual Report.
- 1.5 Every company should prepare a document with guidelines setting forth:
- (a) the matters reserved for the Board's decision; and
  - (b) clear directions to Management on matters that must be approved by the Board.

The types of material transactions that require board approval under such guidelines should be disclosed in the company's Annual Report.

- 1.6 Incoming directors should receive comprehensive and tailored induction on joining the Board. This should include his duties as a director and how to discharge those duties, and an orientation program to ensure that they are familiar with the company's business and governance practices. The company should provide training for first-time director<sup>1</sup> in areas such as accounting, legal and industry-specific knowledge as appropriate.

It is equally important that all directors should receive regular training, particularly on relevant new laws, regulations and changing commercial risks, from time to time.

The company should be responsible for arranging and funding the training of directors. The Board should also disclose in the company's Annual Report the induction, orientation and training provided to new and existing directors.

- 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.

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<sup>1</sup> A first time director is a director who has no prior experience as a director of a listed company.

## **BOARD COMPOSITION AND GUIDANCE**

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### **Principle:**

- 2 There should be a strong and independent element on the Board, which is able to exercise objective judgement on corporate affairs independently, in particular, from Management and 10% shareholders<sup>2</sup>. No individual or small group of individuals should be allowed to dominate the Board's decision making.

### **Guidelines:**

- 2.1 There should be a strong and independent element on the Board, with independent directors making up at least one-third of the Board.
- 2.2 The independent directors should make up at least half of the Board where:
- (a) the Chairman of the Board (the "**Chairman**") and the chief executive officer (or equivalent) (the "**CEO**") is the same person;
  - (b) the Chairman and the CEO are immediate family<sup>3</sup> members;
  - (c) the Chairman is part of the management team; or
  - (d) the Chairman is not an independent director.
- 2.3 An "independent" director is one who has no relationship with the company, its related corporations<sup>4</sup>, its 10% shareholders or its officers that could interfere, or be reasonably perceived to interfere, with the exercise of the director's independent business judgement with a view to the best interests of the company. The Board should identify in the company's Annual Report each director it considers to be independent. The Board should determine, taking into account the views of the Nominating Committee ("**NC**"), whether the director is independent in character and judgement and whether there are relationships or circumstances which are likely to affect, or could appear to affect, the director's judgement. Directors should disclose to the Board any such relationship as and when it arises. The Board should state its reasons if it determines that a director

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<sup>2</sup> The term "**10% shareholder**" shall refer to a person who has an interest or interests in one or more voting shares in the company and the total votes attached to that share, or those shares, is not less than 10% of the total votes attached to all the voting shares in the company. "Voting shares" exclude treasury shares.

<sup>3</sup> The term "**immediate family**" shall have the same meaning as currently defined in the Listing Manual of the Singapore Exchange (the "**Listing Manual**"), i.e. the person's spouse, child, adopted child, step-child, brother, sister and parent.

<sup>4</sup> The term "**related corporation**", in relation to the company, shall have the same meaning as currently defined in the Companies Act, i.e. a corporation that is the company's holding company, subsidiary or fellow subsidiary.

is independent notwithstanding the existence of relationships or circumstances which may appear relevant to its determination, including the following:

- (a) a director being employed by the company or any of its related corporations for the current or any of the past three financial years;
- (b) a director who has an immediate family member who is, or has been in any of the past three financial years, employed by the company or any of its related corporations and whose remuneration is determined by the remuneration committee;
- (c) a director, or an immediate family member, accepting any significant compensation from the company or any of its related corporations for the provision of services, for the current or immediate past financial year, other than compensation for board service;
- (d) a director:
  - (i) who, in the current or immediate past financial year, is or was; or
  - (ii) whose immediate family member, in the current or immediate past financial year, is or was,
    - a 10% shareholder of, or a partner in (with 10% or more stake), or an executive officer of, or a director of, any organisation to which the company or any of its subsidiaries made, or from which the company or any of its subsidiaries received, significant payments or material services (which may include auditing, banking, consulting and legal services), in the current or immediate past financial year. As a guide, payments<sup>5</sup> aggregated over any financial year in excess of S\$200,000 should generally be deemed significant;
- (e) a director who is a 10% shareholder or an immediate family member of a 10% shareholder of the company; or
- (f) a director who is or has been directly associated with<sup>6</sup> a 10% shareholder of the company, in the current or immediate past financial year.

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<sup>5</sup> Payments for transactions involving standard services with published rates or routine and retail transactions and relationships (for instance credit card or bank or brokerage or mortgage or insurance accounts or transactions) will not be taken into account, unless special or favourable treatment is accorded.

<sup>6</sup> A director will be considered "**directly associated**" with a 10% shareholder when the director is accustomed or under an obligation, whether formal or informal, to act in accordance with the directions, instructions or wishes of the 10% shareholder in relation to the corporate affairs of the corporation. A director will not be considered "directly associated" with a 10% shareholder by reason only of his or her appointment having been proposed by that 10% shareholder.

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

- 2.4 The independence of any director who has served on the Board beyond nine years from the date of his first appointment should be subject to particularly rigorous review. In doing so, the Board should also take into account the need for progressive refreshing of the Board. The Board should also explain why any such director should be considered independent.
- 2.5 The Board should examine its size and, with a view to determining the impact of the number upon effectiveness, decide on what it considers an appropriate size for the Board, which facilitates effective decision making. The Board should take into account the scope and nature of the operations of the company, the requirements of the business and the need to avoid undue disruptions from changes to the composition of the Board and board committees. The Board should not be so large as to be unwieldy.
- 2.6 The Board and its board committees should comprise directors who as a group provide an appropriate balance and diversity of skills, experience, gender and knowledge of the company. They should also provide core competencies such as accounting or finance, business or management experience, industry knowledge, strategic planning experience and customer-based experience or knowledge.
- 2.7 Non-executive directors should:
  - (a) constructively challenge and help develop proposals on strategy; and
  - (b) review the performance of Management in meeting agreed goals and objectives and monitor the reporting of performance.
- 2.8 To facilitate a more effective check on Management, non-executive directors are encouraged to meet regularly without the presence of Management.

## **CHAIRMAN AND CHIEF EXECUTIVE OFFICER**

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### **Principle:**

- 3 There should be a clear division of responsibilities between the leadership of the Board and the executives responsible for managing the company's business. No one individual should represent a considerable concentration of power.

### **Guidelines:**

- 3.1 The Chairman and the CEO should in principle be separate persons, to ensure an appropriate balance of power, increased accountability and greater capacity of the Board for independent decision making. The division of responsibilities between the Chairman and the CEO should be clearly established, set out in writing and agreed by the Board. In addition, the Board should disclose the relationship between the Chairman and the CEO if they are immediate family members.
- 3.2 The Chairman should:
- (a) lead the Board to ensure its effectiveness on all aspects of its role;
  - (b) set the agenda and ensure that adequate time is available for discussion of all agenda items, in particular strategic issues;
  - (c) promote a culture of openness and debate at the Board;
  - (d) ensure that the directors receive complete, adequate and timely information;
  - (e) ensure effective communication with shareholders;
  - (f) encourage constructive relations within the Board and between the Board and Management;
  - (g) facilitate the effective contribution of non-executive directors in particular; and
  - (h) promote high standards of corporate governance.

The responsibilities set out above provide guidance and should not be taken as a

comprehensive list of all the duties and responsibilities of a Chairman.

3.3 Every company should appoint an independent director to be the lead independent director where:

- (a) the Chairman and the CEO is the same person;
- (b) the Chairman and the CEO are immediate family members;
- (c) the Chairman is part of the management team; or
- (d) the Chairman is not an independent director.

The lead independent director (if appointed) should be available to shareholders where they have concerns and for which contact through the normal channels of the Chairman, the CEO or the chief financial officer (or equivalent) (the "CFO") has failed to resolve or is inappropriate.

3.4 Led by the lead independent director, the independent directors should meet periodically without the presence of the other directors, and the lead independent director should provide feedback to the Chairman after such meetings.

## **BOARD MEMBERSHIP**

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### **Principle:**

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

### **Guidelines:**

4.1 The Board should establish a NC to make recommendations to the Board on all board appointments, with written terms of reference which clearly set out its authority and duties. The NC should comprise at least three directors, the majority of whom, including the NC Chairman, should be independent. The lead independent director, if any, should be a member of the NC. The Board should disclose in the company's Annual Report the names of the members of the NC and the key terms of reference of the NC, explaining its role and the authority delegated to it by the Board.



- 4.2 The NC should make recommendations to the Board on relevant matters relating to:
- (a) the review of board succession plans for directors, in particular, the Chairman and for the CEO;
  - (b) the development of a process for evaluation of the performance of the Board, its board committees and directors;
  - (c) the review of training and professional development programs for the Board; and
  - (d) the appointment and re-appointment of directors (including alternate directors, if applicable).

Important issues to be considered as part of the process for the selection, appointment and re-appointment of directors include composition and progressive renewal of the Board and each director's competencies, commitment, contribution and performance (e.g. attendance, preparedness, participation and candour) including, if applicable, as an independent director. All directors should be required to submit themselves for re-nomination and re-appointment at regular intervals and at least once every three years.

- 4.3 The NC is charged with the responsibility of determining annually, and as and when circumstances require, if a director is independent, bearing in mind the circumstances set forth in Guidelines 2.3 and 2.4 and any other salient factors. If the NC considers that a director who has one or more of the relationships mentioned therein can be considered independent, it shall provide its views to the Board for the Board's consideration. Conversely, the NC has the discretion to consider that a director is not independent even if he does not fall under the circumstances set forth in Guideline 2.3 or Guideline 2.4, and should similarly provide its views to the Board for the Board's consideration.
- 4.4 When a director has multiple board representations, he must ensure that sufficient time and attention is given to the affairs of each company. The NC should decide if a director is able to and has been adequately carrying out his duties as a director of the company, taking into consideration the director's number of listed company board representations and other principal commitments<sup>7</sup>. Guidelines should be adopted that address the competing time

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<sup>7</sup> The term "**principal commitments**" shall include all commitments which involve significant time commitment such as full-time occupation, consultancy work, committee work, non-listed company board representations and directorships and involvement in

commitments that are faced when directors serve on multiple boards. The Board should determine the maximum number of listed company board representations which any director may hold, and disclose this in the company's Annual Report.

- 4.5 Boards should generally avoid approving the appointment of alternate directors. Alternate directors should only be appointed for limited periods in exceptional cases such as when a director has a medical emergency. If an alternate director is appointed, the alternate director should be familiar with the company affairs, and be appropriately qualified. If a person is proposed to be appointed as an alternate director to an independent director, the NC and the Board should review and conclude that the person would similarly qualify as an independent director, before his appointment as an alternate director. Alternate directors bear all the duties and responsibilities of a director.
- 4.6 A description of the process for the selection, appointment and re-appointment of directors to the Board should be disclosed in the company's Annual Report. This should include disclosure on the search and nomination process.
- 4.7 Key information regarding directors, such as academic and professional qualifications, shareholding in the company and its related corporations, board committees served on (as a member or chairman), date of first appointment as a director, date of last re-appointment as a director, directorships or chairmanships both present and those held over the preceding three years in other listed companies, and other principal commitments, should be disclosed in the company's Annual Report. In addition, the company's annual disclosure on corporate governance should indicate which directors are executive, non-executive or considered by the NC to be independent. The names of the directors submitted for appointment or re-appointment should also be accompanied by details and information to enable shareholders to make informed decisions. Such information, which should also accompany the relevant resolution, would include:
- (a) any relationships including immediate family relationships between the candidate and the directors, the company or its 10% shareholders;
  - (b) a separate list of all current directorships in other listed companies; and
  - (c) details of other principal commitments.

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non-profit organisations. Where a director sits on the boards of non-active related corporations, those appointments should not normally be considered principal commitments.

## **BOARD PERFORMANCE**

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### **Principle:**

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

### **Guidelines:**

- 5.1 Every Board should implement a process to be carried out by the NC for assessing the effectiveness of the Board as a whole and its board committees and for assessing the contribution by the Chairman and each individual director to the effectiveness of the Board. The Board should state in the company's Annual Report how the assessment of the Board, its board committees and each director has been conducted. If an external facilitator has been used, the Board should disclose in the company's Annual Report whether the external facilitator has any other connection with the company or any of its directors. This assessment process should be disclosed in the company's Annual Report.
- 5.2 The NC should decide how the Board's performance may be evaluated and propose objective performance criteria. Such performance criteria, which allow for comparison with industry peers, should be approved by the Board and address how the Board has enhanced long-term shareholder value. These performance criteria should not be changed from year to year, and where circumstances deem it necessary for any of the criteria to be changed, the onus should be on the Board to justify this decision.
- 5.3 Individual evaluation should aim to assess whether each director continues to contribute effectively and demonstrate commitment to the role (including commitment of time for meetings of the Board and board committees, and any other duties). The Chairman should act on the results of the performance evaluation, and, in consultation with the NC, propose, where appropriate, new members to be appointed to the Board or seek the resignation of directors.

## **ACCESS TO INFORMATION**

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### **Principle:**

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

### **Guidelines:**

- 6.1 Management has an obligation to supply the Board with complete, adequate information in a timely manner. Relying purely on what is volunteered by Management is unlikely to be enough in all circumstances and further enquiries may be required if the particular director is to fulfil his duties properly. Hence, the Board should have separate and independent access to Management. Directors are entitled to request from Management and should be provided with such additional information as needed to make informed decisions. Management shall provide the same in a timely manner.
- 6.2 Information provided should include board papers and related materials, background or explanatory information relating to matters to be brought before the Board, and copies of disclosure documents, budgets, forecasts and monthly internal financial statements. In respect of budgets, any material variance between the projections and actual results should also be disclosed and explained.
- 6.3 Directors should have separate and independent access to the company secretary. The role of the company secretary should be clearly defined and should include responsibility for ensuring that board procedures are followed and that applicable rules and regulations are complied with. Under the direction of the Chairman, the company secretary's responsibilities include ensuring good information flows within the Board and its board committees and between Management and non-executive directors, advising the Board on all governance matters, 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, and at the company's expense.

## **REMUNERATION MATTERS**

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### **PROCEDURES FOR DEVELOPING REMUNERATION POLICIES**

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#### **Principle:**

- 7 There should be a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual directors. No director should be involved in deciding his own remuneration.

#### **Guidelines:**

- 7.1 The Board should establish a Remuneration Committee ("**RC**") with written terms of reference which clearly set out its authority and duties. The RC should comprise at least three directors, the majority of whom, including the RC Chairman, should be independent. All of the members of the RC should be non-executive directors. This is to minimise the risk of any potential conflict of interest. The Board should disclose in the company's Annual Report the names of the members of the RC and the key terms of reference of the RC, explaining its role and the authority delegated to it by the Board.
- 7.2 The RC should review and recommend to the Board a general framework of remuneration for the Board and key management personnel<sup>8</sup>. The RC should also review and recommend to the Board the specific remuneration packages for each director as well as for the key management personnel. The RC's recommendations should be submitted for endorsement by the entire Board. The RC should cover all aspects of remuneration, including but not limited to director's fees, salaries, allowances, bonuses, options, share-based incentives and awards, and benefits in kind.
- 7.3 If necessary, the RC should seek expert advice inside and/or outside the company on remuneration of all directors. The RC should ensure that existing relationships, if any, between the company and its appointed remuneration consultants will not affect the independence and objectivity of the remuneration consultants. The company should also disclose the names and firms of the remuneration consultants in the annual remuneration report, and include a statement on whether the remuneration consultants have any such relationships with the company.

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<sup>8</sup> The term "**key management personnel**" shall mean the CEO and other persons having authority and responsibility for planning, directing and controlling the activities of the company.

- 7.4 The RC should review the company's obligations arising in the event of termination of the executive directors' and key management personnel's contracts of service, to ensure that such contracts of service contain fair and reasonable termination clauses which are not overly generous. The RC should aim to be fair and avoid rewarding poor performance.

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## **LEVEL AND MIX OF REMUNERATION**

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### **Principle:**

- 8 The level and structure of remuneration should be aligned with the long-term interest and risk policies of the company, and should be appropriate to attract, retain and motivate (a) the directors to provide good stewardship of the company, and (b) key management personnel to successfully manage the company. However, companies should avoid paying more than is necessary for this purpose.

### **Guidelines:**

- 8.1 A significant and appropriate proportion of executive directors' and key management personnel's remuneration should be structured so as to link rewards to corporate and individual performance. Such performance-related remuneration should be aligned with the interests of shareholders and promote the long-term success of the company. It should take account of the risk policies of the company, be symmetric with risk outcomes and be sensitive to the time horizon of risks. There should be appropriate and meaningful measures for the purpose of assessing executive directors' and key management personnel's performance.
- 8.2 Long-term incentive schemes are generally encouraged for executive directors and key management personnel. The RC should review whether executive directors and key management personnel should be eligible for benefits under long-term incentive schemes. The costs and benefits of long-term incentive schemes should be carefully evaluated. In normal circumstances, offers of shares or grants of options or other forms of deferred remuneration should vest over a period of time. The use of vesting schedules, whereby only a portion of the benefits can be exercised each year, is also strongly encouraged. Executive directors and key management personnel should be encouraged to hold their shares beyond the vesting period, subject to the need to finance any cost of acquiring the shares and associated tax liability.

- 8.3 The remuneration of non-executive directors should be appropriate to the level of contribution, taking into account factors such as effort and time spent, and responsibilities of the directors. Non-executive directors should not be over-compensated to the extent that their independence may be compromised. The RC should also consider implementing schemes to encourage non-executive directors to hold shares in the company so as to better align the interests of such non-executive directors with the interests of shareholders.
- 8.4 Companies are encouraged to consider the use of contractual provisions to allow the company to reclaim incentive components of remuneration from executive directors and key management personnel in exceptional circumstances of misstatement of financial results, or of misconduct resulting in financial loss to the company.

## **DISCLOSURE ON REMUNERATION**

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### **Principle:**

- 9 Every company should provide clear disclosure of its remuneration policies, level and mix of remuneration, and the procedure for setting remuneration, in the company's Annual Report. It should provide disclosure in relation to its remuneration policies to enable investors to understand the link between remuneration paid to directors and key management personnel, and performance.

### **Guidelines:**

- 9.1 The company should report to the shareholders each year on the remuneration of directors, the CEO and at least the top five key management personnel (who are not also directors or the CEO) of the company. This annual remuneration report should form part of, or be annexed to the company's annual report of its directors. It should be the main means through which the company reports to shareholders on remuneration matters.

The annual remuneration report should include the aggregate amount of any termination, retirement and post-employment benefits that may be granted to directors, the CEO and the top five key management personnel (who are not directors or the CEO).



- 9.2 The company should fully disclose the remuneration of each individual director and the CEO on a named basis. For administrative convenience, the company may round off the disclosed figures to the nearest thousand dollars. There should be a breakdown (in percentage or dollar terms) of each director's and the CEO's remuneration earned through base/fixed salary, variable or performance-related income/bonuses, benefits in kind, stock options granted, share-based incentives and awards, and other long-term incentives.
- 9.3 The company should name and disclose the remuneration of at least the top five key management personnel (who are not directors or the CEO) in bands of S\$250,000. Companies need only show the applicable bands. There should be a breakdown (in percentage or dollar terms) of each key management personnel's remuneration earned through base/fixed salary, variable or performance-related income/bonuses, benefits in kind, stock options granted, share-based incentives and awards, and other long-term incentives.

In addition, the company should disclose in aggregate the total remuneration paid to the top five key management personnel (who are not directors or the CEO).

As best practice, companies are also encouraged to fully disclose the remuneration of the said top five key management personnel.

- 9.4 For transparency, the annual remuneration report should disclose the details of the remuneration of employees who are immediate family members of a director or the CEO, and whose remuneration exceeds S\$50,000 during the year. This will be done on a named basis with clear indication of the employee's relationship with the relevant director or the CEO. Disclosure of remuneration should be in incremental bands of S\$50,000. The company need only show the applicable bands.
- 9.5 The annual remuneration report should also contain details of employee share schemes to enable their shareholders to assess the benefits and potential cost to the companies. The important terms of the share schemes should be disclosed, 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.

- 9.6 For greater transparency, companies should disclose more information on the link between remuneration paid to the executive directors and key management personnel, and performance. The annual remuneration report should set out a description of performance conditions to which entitlement to short-term and long-term incentive schemes are subject, an explanation on why such performance conditions were chosen, and a statement of whether such performance conditions are met.

## **ACCOUNTABILITY AND AUDIT**

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### **ACCOUNTABILITY**

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#### **Principle:**

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

#### **Guidelines:**

- 10.1 The Board's responsibility to provide a balanced and understandable assessment of the company's performance, position and prospects extends to interim and other price sensitive public reports, and reports to regulators (if required).
- 10.2 The Board should take adequate steps to ensure compliance with legislative and regulatory requirements, including requirements under the listing rules of the securities exchange, for instance, by establishing written policies where appropriate.
- 10.3 Management should provide all members of the Board with management accounts and such explanation and information on a monthly basis and as the Board may require from time to time to enable the Board to make a balanced and informed assessment of the company's performance, position and prospects.

## **RISK MANAGEMENT AND INTERNAL CONTROLS**

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#### **Principle:**

- 11 The Board is responsible for the governance of risk. The Board should ensure that Management maintains a sound system of risk management and internal controls to safeguard shareholders' interests and the company's assets, and should determine the nature and extent of the significant risks which the Board is willing to take in achieving its strategic objectives.

#### **Guidelines:**

- 11.1 The Board should determine the company's levels of risk tolerance and risk policies, and oversee Management in the design, implementation and monitoring of the risk management and internal control systems.

- 11.2 The Board should, at least annually, review the adequacy and effectiveness of the company's risk management and internal control systems, including financial, operational, compliance and information technology controls. Such review can be carried out internally or with the assistance of any competent third parties.
- 11.3 The Board should comment on the adequacy and effectiveness of the internal controls, including financial, operational, compliance and information technology controls, and risk management systems, in the company's Annual Report. The Board's commentary should include information needed by stakeholders to make an informed assessment of the company's internal control and risk management systems.

The Board should also comment in the company's Annual Report on whether it has received assurance from the CEO and the CFO:

- (a) that the financial records have been properly maintained and the financial statements give a true and fair view of the company's operations and finances; and
  - (b) regarding the effectiveness of the company's risk management and internal control systems.
- 11.4 The Board may establish a separate board risk committee or otherwise assess appropriate means to assist it in carrying out its responsibility of overseeing the company's risk management framework and policies.

## **AUDIT COMMITTEE**

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### **Principle:**

- 12 The Board should establish an Audit Committee ("AC") with written terms of reference which clearly set out its authority and duties.<sup>9</sup>

### **Guidelines:**

- 12.1 The AC should comprise at least three directors, the majority of whom,

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<sup>9</sup> The Board may wish to refer to the sample terms of reference contained in the Guidebook for Audit Committees in Singapore issued by the Audit Committee Guidance Committee which was established on 15 January 2008 by the Monetary Authority of Singapore, the Accounting and Corporate Regulatory Authority and Singapore Exchange Limited to develop practical guidance for audit committees of listed companies.

including the AC Chairman, should be independent. All of the members of the AC should be non-executive directors. The Board should disclose in the company's Annual Report the names of the members of the AC and the key terms of reference of the AC, explaining its role and the authority delegated to it by the Board.

- 12.2 The Board should ensure that the members of the AC are appropriately qualified to discharge their responsibilities. At least two members, including the AC Chairman, should have recent and relevant accounting or related financial management expertise or experience, as the Board interprets such qualification in its business judgement.
- 12.3 The AC should have explicit authority to investigate any matter within its terms of reference, full access to and co-operation by Management and full discretion to invite any director or executive officer to attend its meetings, and reasonable resources to enable it to discharge its functions properly.
- 12.4 The duties of the AC should include:
- (a) reviewing the significant financial reporting issues and judgements so as to ensure the integrity of the financial statements of the company and any announcements relating to the company's financial performance;
  - (b) reviewing and reporting to the Board at least annually the adequacy and effectiveness of the company's internal controls, including financial, operational, compliance and information technology controls (such review can be carried out internally or with the assistance of any competent third parties);
  - (c) reviewing the effectiveness of the company's internal audit function;
  - (d) reviewing the scope and results of the external audit, and the independence and objectivity of the external auditors; and
  - (e) making recommendations to the Board on the proposals to the shareholders on the appointment, re-appointment and removal of the external auditors, and approving the remuneration and terms of engagement of the external auditors.
- 12.5 The AC should meet (a) with the external auditors, and (b) with the internal auditors, in each case without the presence of Management, at least annually.

- 12.6 The AC should review the independence of the external auditors annually and should state (a) the aggregate amount of fees paid to the external auditors for that financial year, and (b) a breakdown of the fees paid in total for audit and non-audit services respectively, or an appropriate negative statement, in the company's Annual Report. Where the external 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 maintain objectivity.
- 12.7 The AC should review the policy and arrangements by which staff of the company and any other persons may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters. The AC's objective should be to ensure that arrangements are in place for such concerns to be raised and independently investigated, and for appropriate follow-up action to be taken. The existence of a whistle-blowing policy should be disclosed in the company's Annual Report, and procedures for raising such concerns should be publicly disclosed as appropriate.
- 12.8 The Board should disclose a summary of all the AC's activities in the company's Annual Report. The Board should also disclose in the company's Annual Report measures taken by the AC members to keep abreast of changes to accounting standards and issues which have a direct impact on financial statements.
- 12.9 A former partner or director of the company's existing auditing firm or auditing corporation should not act as a member of the company's AC: (a) within a period of 12 months commencing on the date of his ceasing to be a partner of the auditing firm or director of the auditing corporation; and in any case (b) for as long as he has any financial interest in the auditing firm or auditing corporation.

## **INTERNAL AUDIT**

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### **Principle:**

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

### **Guidelines:**

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

The AC approves the hiring, removal, evaluation and compensation of the head of the internal audit function, or the accounting / auditing firm or corporation to which the internal audit function is outsourced. The Internal Auditor should have unfettered access to all the company's documents, records, properties and personnel, including access to the AC.

- 13.2 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 be in-house, outsourced to a reputable accounting/auditing firm or corporation, or performed by a major shareholder, holding company or controlling enterprise with an internal audit staff.
- 13.3 The internal audit function should be staffed with persons with the relevant qualifications and experience.
- 13.4 The Internal Auditor should carry out its function according to the standards set by nationally or internationally recognised professional bodies including the Standards for the Professional Practice of Internal Auditing set by The Institute of Internal Auditors.
- 13.5 The AC should, at least annually, review the adequacy and effectiveness of the internal audit function.

## **SHAREHOLDER RIGHTS AND RESPONSIBILITIES**

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### **SHAREHOLDER RIGHTS**

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#### **Principle:**

- 14 Companies should treat all shareholders fairly and equitably, and should recognise, protect and facilitate the exercise of shareholders' rights, and continually review and update such governance arrangements.

#### **Guidelines:**

- 14.1 Companies should facilitate the exercise of ownership rights by all shareholders. In particular, shareholders have the right to be sufficiently informed of changes in the company or its business which would be likely to materially affect the price or value of the company's shares.
- 14.2 Companies should ensure that shareholders have the opportunity to participate effectively in and vote at general meetings of shareholders. Shareholders should be informed of the rules, including voting procedures, that govern general meetings of shareholders.
- 14.3 Companies should allow corporations which provide nominee or custodial services to appoint more than two proxies so that shareholders who hold shares through such corporations can attend and participate in general meetings as proxies.

## **COMMUNICATION WITH SHAREHOLDERS**

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#### **Principle:**

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

#### **Guidelines:**

- 15.1 Companies should devise an effective investor relations policy to regularly convey pertinent information to shareholders. In disclosing information,



companies should be as descriptive, detailed and forthcoming as possible, and avoid boilerplate disclosures.

- 15.2 Companies should disclose information on a timely basis through SGXNET and other information channels, including a well-maintained and updated corporate website. Where there is inadvertent disclosure made to a select group, companies should make the same disclosure publicly to all others as promptly as possible
- 15.3 The Board should establish and maintain regular dialogue with shareholders, to gather views or inputs, and address shareholders' concerns.
- 15.4 The Board should state in the company's Annual Report the steps it has taken to solicit and understand the views of the shareholders e.g. through analyst briefings, investor roadshows or Investors' Day briefings.
- 15.5 Companies are encouraged to have a policy on payment of dividends and should communicate it to shareholders. Where dividends are not paid, companies should disclose their reasons.

## **CONDUCT OF SHAREHOLDER MEETINGS**

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### **Principle:**

- 16 Companies should encourage greater shareholder participation at general meetings of shareholders, and allow shareholders the opportunity to communicate their views on various matters affecting the company.

### **Guidelines:**

- 16.1 Shareholders should have the opportunity to participate effectively in and to vote at general meetings of shareholders. Companies should make the appropriate provisions in their Articles of Association (or other constitutive documents) to allow for absentia voting at general meetings of shareholders.
- 16.2 There should be separate resolutions at general meetings on each substantially separate issue. Companies should avoid "bundling" resolutions unless the resolutions are interdependent and linked so as to form one significant proposal.

- 16.3 All directors should attend general meetings of shareholders. In particular, the Chairman of the Board and the respective Chairman of the AC, NC and RC should be present and available to address shareholders' queries at these 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.
- 16.4 Companies should prepare minutes of general meetings that include substantial and relevant comments or queries from shareholders relating to the agenda of the meeting, and responses from the Board and Management, and to make these minutes available to shareholders upon their request.
- 16.5 Companies should put all resolutions to vote by poll and make an announcement of the detailed results showing the number of votes cast for and against each resolution and the respective percentages. Companies are encouraged to employ electronic polling.

## GLOSSARY

The following terms, unless the context requires otherwise, have the following meanings:

<b>Term</b>	<b>Meaning</b>
"AC"	: Audit Committee
"AC Chairman"	: Chairman of the AC
"Board"	: The board of directors of the company
"CEO"	: Chief executive officer or equivalent
"CFO"	: Chief financial officer or equivalent
"Chairman"	: Chairman of the Board
"Companies Act"	: Companies Act (Chapter 50 of the statutes of Singapore)
"directly associated"	: A director will be considered "directly associated" to a 10% shareholder when the director is accustomed or under an obligation, whether formal or informal, to act in accordance with the directions, instructions or wishes of the 10% shareholder in relation to the corporate affairs of the corporation. A director will not be considered "directly associated" to a 10% shareholder by reason only of his appointment having been proposed by that 10% shareholder
"immediate family"	: As currently defined in the Listing Manual, to mean the person's spouse, child, adopted child, step-child, brother, sister and parent
"key management personnel"	: The CEO and other persons having authority and responsibility for planning, directing and controlling the activities of the company

"Listing Manual"	:	The listing manual of the Singapore Exchange
"Management"	:	The management of the company
"NC"	:	Nominating Committee
"NC Chairman"	:	Chairman of the NC
"principal commitments"	:	Includes all commitments which involve significant time commitment such as full-time occupation, consultancy work, committee work, non-listed company board representations and directorships and involvement in non-profit organisations. Where a director sits on the Boards of non-active related corporations, those appointments should not normally be considered principal commitments
"related corporation"	:	In relation to the company, as currently defined in the Companies Act, to mean a corporation that is the company's holding company, subsidiary or fellow subsidiary
"RC"	:	Remuneration Committee
"RC Chairman"	:	Chairman of the RC
"10% shareholder"	:	A person who has an interest or interests in one or more voting shares in the company; and the total votes attached to that share, or those shares, is not less than 10% of the total votes attached to all the voting shares in the company. "Voting shares" exclude treasury shares

Reference to any gender shall include reference to any other gender, unless the context otherwise requires.

## **DISCLOSURE OF CORPORATE GOVERNANCE ARRANGEMENTS**

The Listing Manual requires listed companies to describe in their company's Annual Reports their corporate governance practices with specific reference to the principles of the Code, as well as disclose and explain any deviation from any guideline of the Code. Companies should make a positive confirmation at the start of the corporate governance section of the company's Annual Report that they have adhered to the principles and guidelines of the Code, or specify each area of non-compliance. Many of these guidelines are recommendations for companies to disclose their corporate governance arrangements. For ease of reference, the specific principles and guidelines in the Code with *express* disclosure requirements are set out below:

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|--|---------------|
| ● Delegation of authority, by the Board to any board committee, to make decisions on certain board matters   | Guideline 1.3 |
| ● The number of meetings of the Board and board committees held in the year, as well as the attendance of every board member at these meetings   | Guideline 1.4 |
| ● The type of material transactions that require board approval under guidelines   | Guideline 1.5 |
| ● The induction, orientation and training provided to new and existing directors   | Guideline 1.6 |
| ● The Board should identify in the company's Annual Report each director it considers to be independent. Where the Board considers a director to be independent in spite of the existence of a relationship as stated in the Code that would otherwise deem a director not to be independent, the nature of the director's relationship and the reasons for considering him as independent should be disclosed | Guideline 2.3 |
| ● Where the Board considers an independent director, who has served on the Board for more than nine years from the date of his first appointment, to be independent, the reasons for considering him as independent should be disclosed.   | Guideline 2.4 |
| ● Relationship between the Chairman and the CEO where they are immediate family members  | Guideline 3.1 |

<ul style="list-style-type: none"> <li>Names of the members of the NC and the key terms of reference of the NC, explaining its role and the authority delegated to it by the Board</li> </ul>	Guideline 4.1
<ul style="list-style-type: none"> <li>The maximum number of listed company board representations which directors may hold should be disclosed</li> </ul>	Guideline 4.4
<ul style="list-style-type: none"> <li>Process for the selection, appointment and re-appointment of new directors to the Board, including the search and nomination process</li> </ul>	Guideline 4.6
<ul style="list-style-type: none"> <li>Key information regarding directors, including which directors are executive, non-executive or considered by the NC to be independent</li> </ul>	Guideline 4.7
<ul style="list-style-type: none"> <li>The Board should state in the company's Annual Report how assessment of the Board, its board committees and each director has been conducted. If an external facilitator has been used, the Board should disclose in the company's Annual Report whether the external facilitator has any other connection with the company or any of its directors. This assessment process should be disclosed in the company's Annual Report</li> </ul>	Guideline 5.1
<ul style="list-style-type: none"> <li>Names of the members of the RC and the key terms of reference of the RC, explaining its role and the authority delegated to it by the Board</li> </ul>	Guideline 7.1
<ul style="list-style-type: none"> <li>Names and firms of the remuneration consultants (if any) should be disclosed in the annual remuneration report, including a statement on whether the remuneration consultants have any relationships with the company</li> </ul>	Guideline 7.3
<ul style="list-style-type: none"> <li>Clear disclosure of remuneration policies, level and mix of remuneration, and procedure for setting remuneration</li> </ul>	Principle 9
<ul style="list-style-type: none"> <li>Remuneration of directors, the CEO and at least the top five key management personnel (who are not also directors or the CEO) of the company. The annual remuneration report should include the aggregate amount of any termination, retirement and post-employment benefits that may be granted to directors, the CEO and the top five key management personnel (who are not</li> </ul>	Guideline 9.1

directors or the CEO)	
<ul style="list-style-type: none"><li>● Fully disclose the remuneration of each individual director and the CEO on a named basis. There will be a breakdown (in percentage or dollar terms) of each director's and the CEO's remuneration earned through base/fixed salary, variable or performance-related income/bonuses, benefits in kind, stock options granted, share-based incentives and awards, and other long-term incentives</li></ul>	Guideline 9.2
<ul style="list-style-type: none"><li>● Name and disclose the remuneration of at least the top five key management personnel (who are not directors or the CEO) in bands of S\$250,000. There will be a breakdown (in percentage or dollar terms) of each key management personnel's remuneration earned through base/fixed salary, variable or performance-related income/bonuses, benefits in kind, stock options granted, share-based incentives and awards, and other long-term incentives. In addition, the company should disclose in aggregate the total remuneration paid to the top five key management personnel (who are not directors or the CEO). As best practice, companies are also encouraged to fully disclose the remuneration of the said top five key management personnel</li></ul>	Guideline 9.3
<ul style="list-style-type: none"><li>● Details of the remuneration of employees who are immediate family members of a director or the CEO, and whose remuneration exceeds S\$50,000 during the year. This will be done on a named basis with clear indication of the employee's relationship with the relevant director or the CEO. Disclosure of remuneration should be in incremental bands of S\$50,000</li></ul>	Guideline 9.4
<ul style="list-style-type: none"><li>● Details and important terms of employee share schemes</li></ul>	Guideline 9.5
<ul style="list-style-type: none"><li>● For greater transparency, companies should disclose more information on the link between remuneration paid to the executive directors and key management personnel, and performance. The annual remuneration report should set out a description of performance conditions to which entitlement to short-term and long-term incentive schemes are subject, an explanation on why such performance conditions were chosen, and a statement of whether such performance conditions are met</li></ul>	Guideline 9.6

- The Board should comment on the adequacy and effectiveness of the internal controls, including financial, operational, compliance and information technology controls, and risk management systems  
  
The commentary should include information needed by stakeholders to make an informed assessment of the company's internal control and risk management systems  
  
The Board should also comment on whether it has received assurance from the CEO and the CFO: (a) that the financial records have been properly maintained and the financial statements give true and fair view of the company's operations and finances; and (b) regarding the effectiveness of the company's risk management and internal control systems  
  
Guideline 11.3
- Names of the members of the AC and the key terms of reference of the AC, explaining its role and the authority delegated to it by the Board  
  
Guideline 12.1
- Aggregate amount of fees paid to the external auditors for that financial year, and breakdown of fees paid in total for audit and non-audit services respectively, or an appropriate negative statement  
  
Guideline 12.6
- The existence of a whistle-blowing policy should be disclosed in the company's Annual Report  
  
Guideline 12.7
- Summary of the AC's activities and measures taken to keep abreast of changes to accounting standards and issues which have a direct impact on financial statements  
  
Guideline 12.8
- The steps the Board has taken to solicit and understand the views of the shareholders e.g. through analyst briefings, investor roadshows or Investors' Day briefings  
  
Guideline 15.4
- Where dividends are not paid, companies should disclose their reasons.  
  
Guideline 15.5



## **THE ROLE OF SHAREHOLDERS IN ENGAGING WITH COMPANIES IN WHICH THEY INVEST**

The Code on Corporate Governance focuses on providing principles and guidelines to listed companies and their Boards to spur them towards a high standard of corporate governance. To ensure that these standards are achieved and sustained in practice, active and constructive shareholder relations is crucial. Bearing in mind the diversity of shareholders in a listed company and their differing investment objectives, this statement sets out certain broad views on the role of shareholders.

The objective of creating sustainable and financially sound enterprises that offer long-term value to shareholders is best served through a constructive relationship between shareholders and the Boards of companies.

Shareholder inputs on governance matters are useful to strengthen the overall environment for good governance policies and practices, and convey shareholders' expectations to the Board. By constructively engaging with the Board, shareholders can help to set the tone and expectation for governance of the company.

A shareholder's vote at general meetings is a direct way of expressing views and expectations to the Board. Hence, shareholders should exercise their right to attend general meetings and vote responsibly. Where relevant, shareholders should communicate to the Board their reasons for disagreeing with any proposal tabled at a general meeting.

Where appropriate, specific shareholder groups and their associations are encouraged to consider adopting international best practices. Initiatives by relevant industry associations or organisations to develop guidelines on their roles as shareholders of listed companies will be welcomed.

*For the avoidance of doubt, this statement does not form part of the Code of Corporate Governance. It is aimed at enhancing the quality of engagement between shareholders and companies, so as to help drive higher standards of corporate governance and improve long-term returns to shareholders.*