

## CORPORATE GOVERNANCE

SPC is committed to upholding the highest standards of corporate governance. The Company recognises that its growth and success must be anchored firmly on a framework of sound corporate governance principles and processes. Towards this end, the Company continues to review and refine its internal processes by which the business and affairs of the Group are managed, to improve performance, accountability, auditability and transparency.

SPC believes that its drive towards effective corporate governance will translate into sound business decisions, underpin its financial performance and deliver value to its shareholders.

The Code of Corporate Governance issued by the Corporate Governance Committee (the “Code”) has been embraced by the Company and is used as a standard and a reference in the Company’s review of its corporate governance structures and processes.

SPC is pleased to share this corporate governance report (the “Report”) with its shareholders and would like to confirm that it has complied with the spirit and the requirements of the Listing Manual of the Singapore Exchange Securities Trading Limited (“SGX-ST”) and the Code.

It is to be noted that there are other sections in this Annual Report that have relevance to corporate governance and as such, this Report should be read together with those sections.

This Report is broadly divided into four main sections, consistent with the Code as follows:

- Board Matters
- Remuneration Matters
- Accountability and Audit
- Communication with Shareholders

### **BOARD MATTERS**

#### ***The Board’s Conduct of its Affairs (Principle 1)***

The Board is conscious of its stewardship role and mindful of its fiduciary responsibility to act in the best interests of the Company, its shareholders and employees. Its principal functions are to establish the corporate vision and strategic business policies and objectives of the Group. It monitors the financial performance of the Group and oversees management in its control of the Group’s businesses and corporate affairs.

Corporate authority in SPC is delineated through two sets of delegation of authority for the day-to-day operation of the Company. The first, an executive delegation of authority, sets out guidelines on matters requiring Board approval and authority limits for the Executive Committee and management. The second is an internal delegation of authority with differing authority limits for management and staff.

Matters that are specifically reserved for the Board are those involving annual budgets, major financing proposals, investment and divestment proposals, strategic business initiatives, and significant corporate actions of the Company.

The growth and development of the Group have been achieved as a result of Board and Board committee decisions based on management actions and recommendations which are subjected to corporate governance processes that ensured thorough and proper assessment of financial, economic, political and other risks. This included the addition of upstream and midstream oil and gas businesses to the Company's core downstream business. SPC recognised that this transformation was undertaken and made possible through corporate governance practices which are an integral part of the corporate culture of SPC.

To assist the Board in its functions, the Board established and delegated specific responsibilities, to four Board committees, namely the Executive Committee ("ExCo"), the Nominating Committee ("NC"), the Remuneration and Share Option Committee ("RSOC") and the Audit Committee ("AC").

The respective roles and responsibilities of each Board committee and their work and activities will be covered in this Report. In addition, the Board has delegated the oversight responsibility for Enterprise Risk Management ("ERM") to the ExCo and an ERM Committee ("ERMC") was formed, comprising members of senior management under the leadership of the Chief Executive Officer ("CEO").

The Board is scheduled to meet at least four times a year, and additional meetings are called when required by circumstances. For the financial year ended 31 December 2003, a total of four Board meetings were held.

#### TABLE 1 BOARD AND BOARD COMMITTEES

The nature of directors' appointments on the Board and details of their membership on Board committees are set out below:

Director	Board Membership	Audit	Executive	Nominating	Remuneration & Share Option
Choo Chiau Beng	Chairman Non-Independent & Non-Executive	–	Chairman	Member	Member
Koh Ban Heng	Executive Director	–	Member	–	–
Bertie Cheng Shao Shiong	Independent & Non-Executive	Member	–	Chairman	Chairman
Geoffrey John King	Independent & Non-Executive	Member	–	–	Member
Timothy Ong Teck Mong	Independent & Non-Executive	–	–	–	–
Chin Wei-Li, Audrey Marie	Independent & Non-Executive	Chairperson	–	Member	Member
Goon Kok-Loon	Independent & Non-Executive	Member	Member	–	–
Teo Soon Hoe	Non-Independent & Non-Executive	–	–	–	–
Cheng Hong Kok	Non-Independent & Non-Executive	–	Member	–	–

Apart from attendance at the various formal meetings throughout 2003, the Board members kept in constant communication and contact over the Company's business affairs as described in the relevant sections of this Report. In addition, Board or Board committee members were consulted on urgent and procedural matters and follow-up approvals were obtained by circulating directors' resolutions.

The Company's Articles of Association allow Board meetings to be conducted by telephone, radio, close-circuit television or other electronic means.

## TABLE 2 ATTENDANCE AT BOARD AND BOARD COMMITTEE MEETINGS

The directors' attendance at Board and Board Committee meetings held in 2003 are disclosed below:

	Board	Audit	Board Committee Meetings		
	Meetings		Executive	Nominating	Remuneration
Choo Chiau Beng	4	–	4	2	3
Koh Ban Heng*	1 of 1	–	2 of 2	–	–
Leon Codron <sup>#</sup>	3 of 3	–	2 of 2	–	–
Bertie Cheng Shao Shiong <sup>a</sup>	4	4	2	2	3
Geoffrey John King	4	4	–	–	3
Timothy Ong Teck Mong	2	–	–	–	–
Chin Wei-Li, Audrey Marie	4	4	–	2	3
Goon Kok-Loon <sup>@</sup>	1 of 1	1	2 of 2	–	–
Teo Soon Hoe	4	–	–	–	–
Cheng Hong Kok	4	–	4	–	–

\* Appointed as Director and ExCo member on 21 August 2003

<sup>#</sup> Completion of contract as CEO on 20 August 2003 and resignation as Executive Director with effect from 21 August 2003

<sup>a</sup> Replaced as ExCo member on 30 July 2003

<sup>@</sup> Appointed as Director and ExCo and Audit member on 30 July 2003

Directors have access to management and are able to discuss and clarify with management, business and related issues. Further elaboration is provided under the section titled 'Access to Information'.

New directors are invited to an orientation programme with SPC management to acquaint them with the Company's vision, mission, strategy and business. New directors are also briefed on the Company's corporate processes. In line with this program, an orientation was provided to Mr Goon Kok-Loon, who was appointed a director on 30 July 2003. Heads of each functional group briefed Mr Goon on operations and provided corporate data to familiarise him with the Group's businesses.

The Company regularly informs directors of relevant training seminars and encourages directors to attend courses and training seminars in relevant fields.



SPC has compiled its own Corporate Governance Manual (“SPC Manual”) to assist the directors and management in the exercise of their legal, fiduciary and statutory duties. This manual is regularly updated to keep pace with the developments and amendments in corporate governance, the Singapore Companies Act, securities legislation and the SGX-ST Listing Manual, and contains the requisite forms and precedents for declarations of directors. The SPC Manual is provided to the Board members as well as executives appointed to the various boards of SPC’s group of companies, to ensure that sound corporate governance principles and processes prevail throughout the organisation. In addition, the Company’s Legal Department conducts briefing sessions to update its executives on the boards of SPC’s subsidiaries, associates and joint venture companies on corporate governance.

### **Board Composition and Balance (Principle 2)**

The Board presently comprises nine directors. The non-executive non-independent directors are Messrs Choo Chiau Beng (Chairman), Teo Soon Hoe and Cheng Hong Kok. The majority of the Board comprises non-executive independent directors, and they are Messrs Bertie Cheng, Geoffrey King, Timothy Ong, Goon Kok-Loon and Dr Audrey Chin.

Mr Koh Ban Heng is the sole Executive Director of the Company and was appointed CEO and Executive Director of the Company on 21 August 2003.

The NC has reviewed the independence of each director for 2003 and in accordance with the Code’s definition of independence, is satisfied that more than 50 per cent of the Board are independent directors as declared in this Report.

The NC is of the view that the Board comprises directors capable of exercising objective judgment on corporate affairs of the Company, independently of management. The NC is also of the view that the directors as a group, possess core competencies such as finance, business, legal, human resource and managerial experience with industry knowledge and strategic planning experience.

Mr Goon Kok-Loon’s appointment to the Board on 30 July 2003, was in line with the NC’s view that additional local/foreign industry specific directors could be invited to join and further strengthen the Board.

The profiles and key information of the Board members are found in the Board of Directors’ section of this Report.

### **Executive Committee**

The ExCo comprises four members of the Board. They are Messrs Choo Chiau Beng (Chairman), Koh Ban Heng, Cheng Hong Kok and Goon Kok-Loon.

The ExCo reviews, develops and recommends to the Board:

- (1) Strategic business directions and plans of the Company;
- (2) Substantial acquisitions and disposal of assets (including securities and business undertakings of the Company or Group).
- (3) Significant joint ventures and matters requiring corporate disclosure under the SGX-ST Listing Manual (as may be amended from time to time).
- (4) Significant matters requiring Board recommendations affecting shareholders’ interests in the Company.

In addition, the ExCo acts as an intermediate forum between the Board and management, facilitating timely review and endorsement of recommendations on the above business matters, subject to the delegation of authority and the final decision of the Board.

**Chairman and Chief Executive Officer (Principle 3)**

The roles and responsibilities of the Chairman and CEO in the Company are separated. The Chairman, Mr Choo Chiau Beng, is a non-independent, non-executive director from the Keppel Group. The CEO, Mr Koh Ban Heng, is an Executive Director with primary responsibility for the Company's business and assumed both positions on 21 August 2003. Mr Choo and Mr Koh are not related.

The Chairman is primarily responsible for the Board while the Board has delegated the primary responsibility for the Company's business to the CEO.

The Chairman and the Board together approve the schedule of Board meetings before the financial year with additional meetings called, as and when required. Board agendas are prepared by the Company Secretary after consultation with the Chairman, CEO and senior management.

**Board Membership (Principle 4)**

The NC was established with the objective of ensuring that there is a formal and transparent process in the nomination, appointment and re-appointment of directors to the Board. The NC is also tasked to assess the effectiveness and contribution of the Board and its members, to the strategic growth and development of the Company.

The NC is vested with the responsibility to ensure that the guidelines and spirit of the Code are followed.

Consistent with the Code, the Company's Articles of Association provides that one-third of the directors retire from office at its Annual General Meeting ("AGM") every year.

**TABLE 3 DATE OF DIRECTORS' LAST RE-ELECTION**

<b>Name</b>	<b>Age</b>	<b>Position</b>	<b>Date of Initial Appointment</b>	<b>Date of Last Re-election</b>
Choo Chiau Beng	56	Chairman	3 May 1999	14 May 2003
Koh Ban Heng (appointed 21 August 2003)	55	Executive Director	21 August 2003	–
Bertie Cheng Shao Shiong	66	Director	18 July 1997	14 May 2003
Geoffrey John King	56	Director	1 August 2000	14 May 2003
Timothy Ong Teck Mong*	50	Director	1 August 2001	14 May 2002
Chin Wei-Li, Audrey Marie	46	Director	1 August 2001	14 May 2002
Goon Kok-Loon (appointed 30 July 2003)	61	Director	30 July 2003	–
Teo Soon Hoe*	55	Director	3 May 1999	14 May 2002
Cheng Hong Kok*	61	Director	3 May 1999	14 May 2002

\* Messrs Teo Soon Hoe, Cheng Hong Kok and Timothy Ong will retire at the AGM fixed for 27 April 2004 and offer themselves for re-election. They were selected by lot in accordance with Article 110 of the Articles of Association of the Company.

The NC has reviewed directors with multiple directorships and is of the view that sufficient time and attention has been given to the affairs of the Company through attendance at Board and Board committee meetings and other meetings held on a less formal basis including reviews by circulation.

Mr Bertie Cheng, Independent Director of SPC, receiving the Corporate Governance (Merit) Award from Guest-of-Honour Dr Tony Tan at the annual Investors' Choice Awards organised by the Securities Investors Association of Singapore



The committee has encouraged directors to make every effort to attend Board and Board committee meetings and other meetings either physically, or through electronic communication.

Throughout the year, directors maintained dialogue with other Board members and management on matters within their purview, over and above their attendance at convened meetings.

Pursuant to its annual review of the performance of the Board and its skills set, the NC is of the view that the current Board has a good mix of capabilities, expertise and work experience to serve the Company and its shareholders.

As stated above, pursuant to the NC's review of potential Board candidates, Mr Goon Kok-Loon was appointed to the Board as a non-executive independent director on 30 July 2003. Mr Goon's career as director and member of the senior management of PSA, coupled with his international experience will benefit the Company in its strategic initiatives.

The NC continues to hold the view that additional directors could be invited to join and further strengthen the Board, taking into consideration the Company's strategic plan and vision.

### Nominating Committee

The NC has three Board members. They are Messrs Bertie Cheng (chairman), Choo Chiau Beng and Dr Audrey Chin.

The committee has established a formal and transparent process in the nomination, appointment, re-appointment and review of directors to the Board.

The NC's principal functions are summarised as follows:

- (1) Review the background, academic and professional qualifications of nominees.
- (2) Ensure that all directors submit themselves for re-nomination and re-election at least once every three years.
- (3) Determine the independence of the directors annually.
- (4) Propose criteria for the objective performance evaluation of the Board.

**Board Performance (Principle 5)**

The NC reviewed the performance of the Board and of each director as well as each director's independence. The findings of the performance evaluation were presented to the Board by the NC chairman, Mr Bertie Cheng, for discussion and endorsement.

The assessment parameters include overall contribution by each Board member, attendance and performance at Board and Board committee meetings, and knowledge of the industry and the Company's business activities.

In its review, the NC used a variety of financial indicators to measure the Company's performance and took into account the business environment for the year 2003. The Board was found to have taken positive and decisive steps to grow the Company in all segments of its business and to have contributed significantly to the growth and welfare of the Company. The Board was particularly focused on expanding the Company's upstream, midstream and downstream investments regionally. The NC as part of its review, took note of the healthy, friendly and open discussions that transpired at Board and Board committee meetings.

**Access to Information (Principle 6)**

Senior management regularly updates the Board on the Group's businesses and performance through financial and other reports.

The Board is kept abreast of strategic business developments concerning the Company and the Group. Information and updates cover background and explanatory notes and include disclosure statements, documents, budgets, forecasts and monthly reports.

The reports are also intended to keep directors advised of the key concerns and issues affecting the oil and gas industry including the challenges faced by and opportunities open to the Group. Such information aids the Board in making informed, sound and proper decisions.

Board papers are sent to directors approximately seven days prior to Board meetings for their review. Senior management is also invited to attend and present their papers/updates at Board meetings and to discuss issues which the Board may have. Directors have access to management, briefings or informal discussions on the Group's operations and business issues.

In addition, the Board has separate and independent access to the Company Secretary. The Company Secretary attended all Board meetings in the year 2003. The Company Secretary is also secretary to the ExCo, the NC and the RSOC and attended all such Board committee meetings in the year 2003.

The Company Secretary has the responsibility to ensure that Board procedures are followed and that applicable rules and regulations established by the Board and Board committees are complied with. The Company Secretary is also responsible for compliance with all other rules and regulations which are applicable to the Company. In addition, the Company Secretary is regularly consulted by directors on the Company's and the Group's legal and related affairs.

On company matters consistent with the delegation of authority of the Board, directors have the discretion, whether as a group or individually, to obtain or require independent professional advice.

### Remuneration and Share Option Committee

The RSOC has four directors and they are Messrs Bertie Cheng (chairman), Choo Chiau Beng, Geoffrey King and Dr Audrey Chin.

The committee is charged with the responsibility of reviewing and recommending to the Board, the remuneration packages of directors and key executives in the Company.

The committee oversees all aspects of remuneration including but not limited to director's fees, salaries, allowances, bonuses, share options, and other emoluments and benefits. The committee meets at least twice a year. Additional meetings are called by the chairman to address ad hoc issues within the purview of the RSOC.

In exercising its duties and responsibilities, the committee ensures that the guidelines and spirit of the Code are followed.

The RSOC's principal functions are summarised as follows:

- (1) Establish a level of remuneration that is competitive to attract, retain and motivate the directors and key employees in order to run the Company successfully.
- (2) Establish the framework of remuneration for the Board and key executives after reviewing pay and employment conditions within the industry and in comparable companies and determine specific remuneration packages for the Executive Directors and/or CEO.
- (3) Ensure that such remuneration packages take into account the Company's relative performance and the performance of individual directors and key executives.
- (4) Establish appropriate and meaningful measures for assessing the performance of Executive Directors.
- (5) Ensure that non-executive directors' remuneration is appropriately matched to directors' contribution.
- (6) Consider remuneration for directors and key employees in totality with long-term incentive schemes such as share option and other alternative share-based schemes.
- (7) Administers and implements share option and/or other alternative share-based schemes of the Company in accordance with the rules of such schemes and determine offers of options or share grants or rights to share grants to directors and key employees in line with the remuneration policies and decisions approved by the Remuneration Committee.

## REMUNERATION MATTERS

### *Procedures for Developing Remuneration Policies (Principle 7)*

### *Level and Mix of Remuneration (Principle 8)*

### *Disclosure on Remuneration (Principle 9)*

The Company believes in the importance of attracting, retaining and developing a pool of highly motivated talent to add value and grow the business successfully. The Company has adopted a remuneration policy that motivates all employees to achieve stretched goals. This policy carries a higher degree of variability that aligns compensation to performance.

The CEO and Executive Director, Mr Koh Ban Heng's remuneration consists of a fixed salary component, a performance related bonus element, share options and fringe benefits, which align his interests with that of the shareholders.

Non-executive directors are paid an annual fee for their directorships and Board committee memberships.



Non-executive directors do not have any service contracts with the Company. Their terms of appointment are governed by the Company's Articles of Association and the requirements of the SGX-ST Listing Manual.

With the current public scrutiny and awareness of the important role played by directors and management in maintaining high standards of corporate governance, the RSOC focused on ensuring that SPC's remuneration policy is fair, competitive and commensurate with their roles and contributions in the growth and development of the Group.

The RSOC has from time to time utilised external consultants to review and recommend changes to remuneration policies in the Group. In March 2004, SPC retained consultants to review SPC's directors' fees and long-term incentive schemes. The terms of the review included a market analysis of directors' fees of companies of comparative size; share options versus other alternative share-based programs for both directors and employees. The members of the NC and RSOC have conferred and held joint meetings on these matters to ensure that the policies and decisions of the two committees are harmonised

The independent consultants have recommended that the directors' basic retainer fee of \$10,000 per annum be revised to \$20,000 per annum to be in line with the directors' fees of companies of comparative size. This revision in directors' fees will be proposed to shareholders at the forthcoming Annual General Meeting fixed for 27 April 2004.

The consultants have also recommended that new share schemes be adopted to align the interests of the Board and SPC employees with those of the shareholders. This recommendation will be proposed to shareholders at the Extraordinary General Meeting scheduled for 27 April 2004, which will be held immediately following the forthcoming Annual General Meeting.

The NC is of the view that the members of the RSOC are knowledgeable in the field of executive compensation. The NC considers Mr Bertie Cheng, an independent non-executive director and the chairman of the RSOC, to be knowledgeable in the field of executive compensation given his previous appointment as the General Manager/CEO of POSBank for 21 years. The other members of the committee also have many years of supervisory and working experience in managing and handling executive compensation.

The fees payable to the Chairman and each director (other than the Executive Director) is determined by the number of appointments held on the Board and the various Board committees. A breakdown, showing the level and mix of each director's remuneration proposed to be paid for the year 2003 is disclosed in Table 4. The table includes the remuneration paid to directors for the year 2002.

The remuneration of key executives is disclosed in Table 5.

The Company has adopted a remuneration policy for employees which aligns compensation to performance. The remuneration package comprises a fixed salary and a variable annual bonus component. The fixed component is the base salary and the contractual Annual Wage Supplement of one month. The annual variable component ("AVC"), in any year is dependent on the Company, division and individual performance. In line with the national agenda to encourage wage restructuring for companies to be competitive, the Company will, in 2004, introduce a second variable element into the remuneration package. This monthly variable component ("MVC") will equip the Company with the means to respond quickly to the different phases of the economic cycle.

**TABLE 4 DIRECTORS/BOARD COMMITTEES' FEES\***

Name	2002	2003
	\$	Proposed Fee#
	\$	\$
Choo Chiau Beng	28,000	56,000
Koh Ban Heng (appointed 21 August 2003) <sup>a</sup>	–	–
Leon Codron (resigned 21 August 2003) <sup>@</sup>	13,000	17,000
Bertie Cheng Shao Shiong	20,000	40,000
Geoffrey John King	14,000	29,000
Timothy Ong Teck Mong	10,000	20,000
Chin Wei-Li, Audrey Marie	19,000	38,000
Goon Kok-Loon <sup>@</sup> (appointed 30 July 2003)	–	13,000
Teo Soon Hoe	10,000	20,000
Cheng Hong Kok	13,000	25,000
Tan Keng Boon <sup>@</sup> (resigned 15 February 2002)	2,000	–
Oo Soon Hee <sup>@</sup> (resigned 15 February 2002)	2,000	–
<b>Total</b>	<u>131,000</u>	<u>258,000</u>

\* Excludes share options which are disclosed in the Directors' Report.

# The total fee (rounded to the nearest thousand) is subject to shareholders' approval at the AGM for the Financial Year 2003.

<sup>a</sup> The Executive Director is compensated in his executive compensation package.

<sup>@</sup> Pro-rated for services rendered in the financial year.

Note: The proposed basic director's fee is \$20,000 per annum (FY2002: \$10,000 per annum).

### Senior Management

The senior management team assists the Board and Board committees in their oversight of the Group. The team comprises the CEO, the Chief Financial Officer, the Senior Vice Presidents, the Vice-President and the General Managers of the various functional groups and the Chief Information Officer.

The team meets weekly to review operational issues, business activities and policies of the Group. These meetings chaired by the CEO, ensure the smooth functioning of the Group.

Under the SPC Share Option Scheme 2000 (the "Scheme"), grants of share options to employees are based on the individual's balanced scorecard ("BSC") and competency ratings. The annual grant of share options to qualifying non-executive directors and employees was considered by the RSOC in January 2004 and offered in February 2004.

The Scheme was approved by shareholders of the Company on 16 May 2000 and will be in force for a period up to 10 years unless extended for further period(s) with the approval of shareholders at a general meeting and subject to any other relevant approvals that may be required. An option granted under the Scheme may, except in certain special circumstances, be exercised at any time after a vesting period of two years but no later than the expiry date. Options granted under the Scheme are made to all eligible employees of the Group.

**TABLE 5 REMUNERATION OF KEY EXECUTIVES**

for the year ended 31 December 2003

Remuneration Band & Name of Key Executive	Base/Fixed Salary	Variable or Performance Related Income/ Bonuses	Benefits-in-Kind	Director's Fees	Share Options <sup>#</sup>
<i>\$1,250,000 to \$1,499,999</i>					
Leon Codron <sup>∞</sup>	26%	21%	44%	1%	8%*
<i>\$1,000,000 to \$1,249,999</i>					
Nil					
<i>\$750,000 to \$999,999</i>					
Nil					
<i>\$500,000 to \$749,999</i>					
Koh Ban Heng <sup>†</sup>	70%	25%	0%		5%**
Jee-Theng Tony Tan	69%	26%	0%		5%**
<i>\$250,000 to \$499,999</i>					
Chris Keong Poh Guan	64%	30%	0%		6%**
Lee Chiang Huat	66%	30%	0%		4%**
Woo Siew Cheng	65%	30%	0%		5%**
Helen Chong (nee Chia Foong Lan)	63%	31%	0%		6%**

<sup>∞</sup> Completion of contract as CEO on 20 August 2003 and resignation as Executive Director with effect from 21 August 2003

<sup>†</sup> Appointment as CEO and Executive Director with effect 21 August 2003

<sup>#</sup> Options are determined based on Black-Scholes valuation method expressed as a percentage of total remuneration

\* Share options granted in 2003 in relation to the Group's performance in 2002

\*\* Share options granted in 2003 in relation to the Group's performance for the second half of 2002

Non-executive directors and employees must exercise the options offered within five years and ten years respectively, from the date of offer. The share options may be exercised in full or in respect of lots of 100 shares or multiple(s) thereof, on the payment of the subscription price. The subscription price is based on the average last done price for the shares of the Company traded on SGX-ST for the last three market days preceding the date of offer.

The RSOC may at its discretion fix the subscription price at a discount not exceeding 20 per cent of the price and provided that the discounted subscription price shall not in any event be less than the par value of the shares. None of the share options offered had been granted at a discount.

In the year 2003, the Company granted a total of 2,170,000 share options in one tranche under the Scheme. The options granted were in relation to the Group's performance for the second half of 2002 whilst the options granted to non-executive directors and the former Executive Director were based on the full year 2002 performance. This is approximately 0.51 per cent of the Company's issued share capital as at 31 December 2003. There were 1,161,000 shares issued in 2003 by virtue of the exercise of options. Options to take up 103,000 shares lapsed during the financial year.

Based on the Black-Scholes model, the fair value of the options accepted by the employees in 2003 was estimated to be \$0.28 per share option. The estimated fair value of options for non-executive directors accepted in 2003 was \$0.20 per share option. The fair value of all options accepted for 2003 was \$598,694 representing approximately 1.22 per cent of the Group's 2002 profit after tax attributable to members of the Company.

At the end of the financial year, there were 7,720,000 share options as shown in Table 6. Information on share options accepted by the directors in 2003 can be found in the Directors' Report.

No employee or non-executive director received five per cent or more of the total number of options available under the Scheme.

Mr Koh Ban Heng, the current CEO has also been granted options pursuant to his employment. The options granted in 2003 to the former CEO, Mr Leon Codron, pursuant to his employment contract will expire on 16 February 2013. Generally, the qualifying non-executive directors have each been granted share options calculated as a 0.5 factor of the applicable director fees and divided by the Black-Scholes' option value for each share option grant.

To facilitate the administration of share options, the Company implemented a web-based employee share option system to handle the offer, acceptance and exercise of SPC share options.

**TABLE 6 DETAILS OF SHARE OPTIONS**

Date of Grant	As at 1.1.03 or later date of Grant	Number of Shares Options			As at 31.12.03	Subscription Price	Date of Expiry
		Exercised	Cancelled/ Lapsed				
28.8.2000	925,000	(310,000)	(5,000)	610,000	\$0.78	27 August 2010	
17.4.2001	1,159,000	(541,000)	(6,000)	612,000	\$0.68	16 April 2011	
19.9.2001	1,508,000	(266,000)	(15,000)	1,227,000	\$0.68	18 September 2011	
3.4.2002	1,639,000	(16,000)	(21,000)	1,602,000	\$0.75	2 April 2012	
30.10.2002	1,583,000	(18,000)	(28,000)	1,537,000	\$0.87	29 October 2012	
17.2.2003	2,170,000	(10,000)	(28,000)	2,132,000	\$0.92	16 February 2013	
	8,984,000	(1,161,000)	(103,000)	7,720,000			

## ACCOUNTABILITY AND AUDIT

### *Accountability (Principle 10)*

In addition to the Company's continuing disclosure obligations under the SGX-ST Listing Manual, the Board has embraced the provisions of the Code in regard to accountability to shareholders.

The Company provides timely and balanced financial information to its shareholders to build trust and confidence in the Company, to assist them in formulating investment decisions.

The Company continued to report quarterly financial results in the year 2003. These results are available on the Company's website. Information on new initiatives of the Company is first disseminated via SGX-ST's MasNet followed by a news release.

### **Audit Committee**

The AC has four independent directors, and they are Dr Audrey Chin (chairperson), Messrs Bertie Cheng, Geoffrey King and Goon Kok-Loon. The AC members have substantial financial experience and legal qualifications.

The AC meets at least four times a year, and hold additional meetings as may be required in order to assist the Board to fulfill its fiduciary and statutory responsibilities relating to financial management and corporate accountability to the shareholders of SPC.

In addition to its principal functions, the AC also plays a role in raising, developing and sustaining the high standard of corporate governance of the Company.

The AC's main functions are summarised as follows:

- (1) Review and ensure compliance with the requirements of the SGX-ST Listing Manual pertaining to the AC's functions.
- (2) Follow the guidelines set out in the Code when performing its duties and responsibilities, wherever possible.
- (3) Review Interested Person Transactions ("IPT").
- (4) Review with the external and internal auditors their respective audit plans, scope, reports, findings and actions taken by management on the findings.
- (5) Serve as an independent party to review the financial statements presented by management to shareholders, regulators and the general public.
- (6) Review the independence of the external auditors annually and recommend the appointment and remuneration of the external auditors.
- (7) Maintain, by holding regular meetings, open lines of communication among the Board members, the external auditors and the internal auditors to exchange views and information as well as to affirm their respective roles and responsibilities.

### ***Audit Committee (Principle 11)***

The AC assists the Board in fulfilling its fiduciary responsibilities relating to corporate accountability to the shareholders of the Company.

The AC reviews and ensures compliance with the requirements of the SGX-ST Listing Manual pertaining to the AC's functions and follows the guidelines set out in the Code when performing its duties and responsibilities, wherever possible.

The AC maintains open lines of communication among the Board members, management, the external auditors and the internal auditors to exchange views and information as well as to affirm their respective roles and responsibilities.

The AC is supported in its functions by the internal and external auditors. During the year, the AC reviewed the Group's IPT and quarterly, half-yearly and full year financial statements. The AC reviewed the external auditors' 2003 statutory audit plan, scope, findings and management's responses to the findings.

The AC also reviewed all non-audit services provided by the external auditors and is of the view that the independence of the auditors is not affected by the provision of such services. Pursuant to the requirements of the Code, the AC is satisfied with the independence and to the objectivity of the Company's external auditors, Messrs PricewaterhouseCoopers, and recommended their re-appointment to the Board as external auditors for the year 2004, at a fee to be determined at a later date.

The AC reviewed the internal audit plans and the quarterly internal audit summary reports and ensured the adequacy of the internal audit function.

At the year-end, the AC met with the external and internal auditors without the presence of management. The external and internal auditors reported that the Group's overall system of internal controls and procedures were functioning effectively.

Save as disclosed in the Notes to the Financial Statements on IPT, there are no material contracts involving the interests of the CEO, each director or the controlling shareholder and its subsidiaries.

Management reported that the methods and procedures for determining IPT had not changed since the date of the last AGM, at which time the shareholders' mandate for IPT was last renewed. Management accordingly recommended that the Company not appoint an independent financial advisor to review the IPT methods and procedures. Pursuant to the provisions under SGX-ST Listing Rule 920(1), the AC concurred with management's recommendations.

#### ***Internal Controls (Principle 12)***

The Company's internal and external auditors conduct their review in accordance with their respective audit plans on the effectiveness of the Company's system of internal controls including financial, operational and compliance controls. Audit findings, recommendations and actions taken by management on the recommendations are reported to the AC.

#### ***Internal Audit (Principle 13)***

The Company has an Internal Audit Department ("IAD") comprising of four persons, including the Internal Audit Manager. The Internal Audit Manager reports directly to the chairperson of the AC on audit matters and to the CEO on administrative matters.

During the year, the IAD conducted its audit reviews based on the approved internal audit plans. Upon completion of each audit assignment, the IAD reported its findings and recommendations to management who would respond on the actions taken. The IAD submitted quarterly internal audit summary reports to the AC on the status of the audit plan and on major audit findings and actions taken by management on the findings. The IAD reported that the Group's overall system of internal controls and procedures functioned effectively during the year under review.

The Internal Audit Manager is a member of the Singapore branch of the Institute of Internal Auditors Inc ("IIA"), which has its headquarters in the United States. The Internal Audit Manager is guided by the Standards for Professional Practice of Internal Auditing developed by the IIA.

The AC annually reviews the adequacy of the internal audit function and is of the view that it is adequately resourced. The AC is also of the view that the internal audit function is of appropriate standing within the Company and continues to maintain its independence during the year under review.

## **COMMUNICATION WITH SHAREHOLDERS**

#### ***Regular, Effective And Fair Communication With Shareholders (Principle 14)***

The SPC Group recognises the importance of dialogue with the investing public and maintains regular, effective and fair communication with shareholders and stock analysts through several channels which include corporate announcements and quarterly, half-yearly and full-year financial reports via SGX-ST's MasNet broadcast network, the publication of the Annual Report and the AGM. In addition, the Company prepares supplementary financial messages for publication in Keppel Corporation Limited's summary financial booklets.



All results, announcements and annual reports are issued within the mandatory period and these are also made available on the Company's website. In addition to the issue of the Notice of AGM together with the Annual Report, the Notice is also advertised in a major newspaper and posted on the Company's website.

In the spirit of corporate transparency, SPC voluntarily issues MasNet announcements of important transactions, notwithstanding that some of these transactions may not require disclosure. In addition, presentations and explanations are provided to all interested shareholders, media groups and analysts for a better appreciation of such transactions. These voluntary efforts are in line with the Company's commitment to fair communication to stakeholders. The Group also has an investor relations and communications unit that plans, manages and handles communication with the investing public and attends to their enquiries.

#### ***Greater Shareholder Participation (Principle 15)***

The Company is guided by the provisions of the Code with regard to communication with shareholders.

The Company's shareholders are given timely notice of the schedule of the Company's AGM and the opportunity for personal representation at the Meeting. In addition, the Company's Articles of Association allow a member of the Company to vote in absentia by appointing a proxy to attend and vote on his behalf while the Singapore Companies Act provides a corporate shareholder with the option to appoint a corporate representative to attend and vote on its behalf.

Each year, the Chairman presides over the AGM and is accompanied by fellow Board members, the CEO, the Chief Financial Officer, the Company Secretary, the Internal Audit Manager and the Company's external auditors, PricewaterhouseCoopers.

At the meeting, the Chairman discusses the progress and performance of the Group and encourages meaningful and effective shareholders' participation. Directors and management present at such meetings endeavour to address all issues raised.

The Company adopts separate resolutions on each distinct issue presented to shareholders and voting is taken systematically with proper recording of the votes cast and the resolution adopted.

#### **Dealing in Securities**

The Group has adopted the SGX-ST's best practices guide with regard to dealings in the securities of the Company. The directors and senior management are advised not to deal in SPC's shares during the period commencing one month before the announcements of the Group's quarterly results and ending on the date of the announcement. Furthermore when the Company is involved in major corporate activities such as investment or divestment that could be price-sensitive in relation to the Company's securities, officers involved are advised not to deal with the Company's shares.

### Enterprise Risk Management

Enterprise Risk Management (“ERM”) is an integral part of the Company’s corporate governance. Risk control plays an important part of the Company’s decision making process. The objectives of ERM are to identify, measure and monitor enterprise wide risks, to ensure that the Company operates within the agreed risk parameters and that these risks are effectively and efficiently mitigated.

The ERM Committee (“ERMC”) comprises members of senior management under the leadership of the CEO. Under its terms of reference, the responsibilities of the ERMC are summarised as follows:

- (1) Review and report to the ExCo on the risk profile of the Company.
- (2) Review risk mitigation efforts, its costs and highlight to the ExCo the residual risk of the Company.
- (3) Recommend to the ExCo the risk parameters within which the Company should operate.
- (4) Identify and develop policies and make recommendations to eliminate or control risks to improve the risk profile.
- (5) Monitor the implementation of the ExCo’s decisions on the mitigation efforts and risk parameters.

With the implementation of the ERM, the Company has developed its risk profile. An external risk consultant was engaged and a review of each functional group was undertaken. The major risks to which each of the Company’s functional groups were exposed to were identified.

Together with senior management, such risks were collated and a risk profile of the Company was developed. This profile provided a structured review of the Company’s major risks, their respective impact, the mitigating actions and the residual risks. In view of the constantly changing business environment, an annual risk review is conducted by the ERMC to ascertain that the Company’s risk profile is still current.

A framework for ERM was also developed internally and endorsed by the ERMC in 2003. The framework serves as a guide for the Company to further refine and implement its ERM. ERMC meetings were held quarterly in 2003 and these meetings served as a platform for the functional groups to raise potential risk issues.

The ERMC appointed a security officer in 2003 to ensure a more focused approach towards the security of the Company’s physical and human assets. The chairman of the Health, Safety and Environment (“HSE”) Committee was appointed as the Company’s Security Officer. Together with the relevant government authorities, the HSE Committee conducted a review on the physical security of SPC’s Singapore assets in 2003.

The Company is also developing a Crisis Management Plan and reviewing its Business Continuity Plan (“BCP”) to ensure that the Company is able to respond and recover quickly in a crisis. The Crisis Management Plan will establish a Crisis Management Team and the outline of a basic framework to serve as a response system to major disasters and disturbances that would adversely affect the Company’s businesses.

As part of the review of the BCP, the Company conducted trials on the plans proposed by the various functional groups. Similar trials will be held on a regular basis to help the functional groups fine tune their respective BCP plans.