

Corporate governance  
For SPC, corporate governance is not simply a matter of compliance with processes, but embedding the right corporate mindset.



The revised Code of Corporate Governance issued by the Ministry of Finance on 14 July 2005 (the Code) contains changes recommended by the Council on Corporate Disclosure and Governance, following the review of the Code of Corporate Governance 2001. SPC conducted a review of the changes in 2005 and implemented revisions in that year, before the application of the Code in 2007. This was in keeping with the Group's dedication to update and maintain the highest standard of corporate governance in the Company's internal structures and processes.

The SPC Group continues to nurture a strong corporate governance culture with the Board, management and staff, conscientiously ensuring that this underpins corporate behaviour. For SPC, corporate governance is not simply a matter of compliance with processes, but embedding the right corporate mindset. We believe it is people that will make corporate governance work.

SPC has won the SIAS Corporate Governance Award for four consecutive years since 2003. The SIAS awards are testimonies of SPC's corporate values and efforts to build trust and confidence as a strong and sustainable enterprise. We acknowledge with gratitude, the continued support and recognition of SIAS and the investment community.

The Company confirms that it has complied with the spirit and requirements of the Listing Manual (Listing Manual) of the Singapore Exchange Securities Trading Limited (SGX-ST) and the Code, unless otherwise stated. There are other sections in this Annual Report that are relevant to corporate governance and as such, this Corporate Governance Report (Report) should be read with those sections.

SPC is pleased to share this Report with its stakeholders.

## Board Matters

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

The Board's role is to provide entrepreneurial leadership, set strategic goals, and ensure the Company has the necessary financial and human resources to meet its objectives. The Board reviews management performance, establishes an effective system of internal control and values, sets high corporate standards and ensures that obligations to stakeholders are properly discharged at all times.

These guiding principles are entrenched in the Board's oversight and control of the business and corporate activities of the Group.

SPC has set its strategic goal to be an integrated oil and gas company with a premium brand. For the financial year 2006, the Group achieved record revenue of \$8.6 billion resulting in the second highest PATMI of \$284.6 million to date.

These achievements were the result of the Board's and Board Committees' guidance and decisions, based on management recommendations which were subjected to rigorous corporate governance processes that ensured thorough assessment of financial, economic, political and other risks.

Corporate authority in SPC is delineated through two sets of delegation of authority for the operation of the Company. These delegations of authority are reviewed and updated when required, to cater for changes in operations and organisational structure within the Group. The first, an executive delegation of authority, sets out guidelines on matters requiring Board approval and authority limits for the Executive Committee (ExCo) 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, fund-raising proposals, investment and divestment proposals, strategic business initiatives, and significant corporate actions of the Company.

In 2006, corporate governance was given greater emphasis, when the Board included on every Board meeting agenda, an item focused on corporate governance issues. This segment preceded every Board meeting without the presence of senior management. Relevant decisions and discussions arising from the sessions were subsequently conveyed and discussed with senior management in the Board session that followed.

SPC also elevated onto the Board agenda, a regular item on EHSS in the Group and related matters, in recognition of the importance of such issues in the Group's businesses and operations.

The growth and development of the Group through the material acquisitions in 2004, its successful integration in 2005, coupled with the continued growth of the E&P activities in 2006, were made possible through rigorous corporate governance processes.

Board meetings were open and constructive with the Chairman actively encouraging debates and discussions among directors and management. The CEO and senior management provided updates and information to the Board at the meetings involving business operations and projects. The Board received financial reports on the performance of each business unit including significant developments.

To assist the Board in its functions, the Board established and delegated specific responsibilities to three Board committees; namely the ExCo, the Nominating and Remuneration Committee (NRC) and the Audit Committee (AC).

The Board also established the Enterprise Risk Management Committee (ERMC) comprising of senior management under the leadership of the CEO, to review SPC's risk profile and

mitigation strategy. This Committee reports its work and recommendations to the ExCo.

The management team headed by the CEO and comprising senior members of management (Management Committee) ensure the decisions and guidelines of the above committees are implemented in the SPC Group. The respective roles and responsibilities of ExCo, NRC, AC, ERMC, and Management Committee are presented in this Report.

In 2006, the Board and AC each met four times to coincide with the review and release of quarterly results, while three ExCo and four NRC Meetings were held. In addition to these meetings, Board and ExCo resolutions were passed by circulation using electronic and ordinary mail. Informal meetings of the Board and Board Committees were convened when required.

The Board members kept in regular communication with the management. In 2006, the Board also participated in the Company's annual strategy workshop. The Board was apprised of strategic developments at the formal Board and ExCo

### Executive Committee

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

The ExCo reviews and recommends to the Board:

- (1) Strategic business directions and plans of the Group;
- (2) Substantial acquisitions and disposal of assets (including securities and business undertakings of the Group);
- (3) Significant joint ventures and matters requiring corporate disclosure under the SGX-ST Listing Manual;
- (4) Significant matters affecting shareholders' interests in the Company; and
- (5) SPC risk profiles, mitigation efforts and activities of the ERMC.

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

## 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                            | Executive | Audit       | Nominating & Remuneration |
|---------------------------|---|-----------|-------------|---------------------------|
| Choo Chiau Beng           | Chairman<br>Non-Independent & Non-Executive | Chairman  | –           | Member                    |
| Koh Ban Heng              | Executive Director                          | Member    | –           | –                         |
| Bertie Cheng Shao Shiong  | Independent & Non-Executive                 | –         | Member      | 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                    |
| Goon Kok-Loon             | Independent & Non-Executive                 | Member    | Member      | –                         |
| Teo Soon Hoe              | Non-Independent & Non-Executive             | –         | –           | –                         |
| Cheng Hong Kok            | Non-Independent & Non-Executive             | Member    | –           | –                         |

meetings. The Board and where appropriate, the Board Committees were consulted on urgent matters, in accordance with the delegation of authority and terms of reference of the committees. The Company's Articles of Association allows Board meetings to be conducted by telephone, radio, close-circuit television or other electronic means.

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

New directors are customarily invited to an orientation programme with management to acquaint them with the Company's vision, mission, strategy and businesses. They are also briefed on the Company's corporate processes by the heads of each functional group. Corporate data is also given to new directors to familiarise them with the Group's businesses.

The Code recommends a formal appointment letter for new directors, which sets out director's duties and obligations. The Company has practised the issuance of formal appointment

letters to new directors. On the summary of director's duties and obligations, SPC has compiled its own Corporate Governance Manual (SPC Manual) to assist directors and management in the exercise of their legal, fiduciary and statutory duties. This manual is issued to new directors and regularly updated to keep pace with the developments and amendments in the Code of Corporate Governance, best practices, the Singapore Companies Act, Singapore securities legislation, and the SGX-ST Listing Manual. It provides guidance on conflict of interest issues and 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 the SPC Group of companies. This ensures that sound corporate governance principles and processes prevail throughout the Group. In addition, the Company conducts briefing sessions where necessary, to update its executives on the boards of SPC's subsidiaries, associated and joint venture companies on corporate governance.

**Table 2: Attendance at Board and Board Committee Meetings**

The directors' attendance at Board and Board Committee Meetings held in 2006 are disclosed below:

| Director                  | Board Membership | Committee |        |                           |
|---------------------------|------------------|-----------|--------|---------------------------|
|                           |                  | Executive | Audit  | Nominating & Remuneration |
| Choo Chiau Beng           | 4 of 4           | 3 of 3    | –      | 4 of 4                    |
| Koh Ban Heng              | 4 of 4           | 3 of 3    | –      | –                         |
| Bertie Cheng Shao Shiong  | 4 of 4           | –         | 4 of 4 | 4 of 4                    |
| Geoffrey John King        | 4 of 4           | –         | 4 of 4 | 4 of 4                    |
| Timothy Ong Teck Mong     | 3 of 4           | –         | –      | –                         |
| Chin Wei-Li, Audrey Marie | 4 of 4           | –         | 4 of 4 | 4 of 4                    |
| Goon Kok-Loon             | 4 of 4           | 3 of 3    | 4 of 4 | –                         |
| Teo Soon Hoe              | 4 of 4           | –         | –      | –                         |
| Cheng Hong Kok            | 4 of 4           | 3 of 3    | –      | –                         |

#### *Enterprise Risk Management Committee*

The ERM is chaired by the CEO and comprises senior management. This Committee reports to ExCo and meets at least once in every quarter to consider risk management issues and policies. Enterprise Risk Management (ERM) is an integral part of the Company's corporate governance framework and is essential to the Company's decision making process. ERM initiatives ensure that the Group's risks are effectively and efficiently mitigated. The scope and activities of the ERM are set out in this Report.

Five ERM meetings were held in 2006 to review SPC's current risk profile. Mitigation actions and plans were revised and updated. In 2006, special attention and assessment were focused on EHSS issues including natural disasters and other threats in the region which could disrupt the Group's business operations.

In 2006, the Company tested its Business Continuity Plan, which was premised on alternative communications and IT access, and found the plan to be satisfactory. As part of

its emphasis on crisis preparedness, the Company initiated discussions with external consultants to review and update its Crisis Management Plan (CMP), including training relevant staff and conducting exercises simulating a real crisis which SPC might face. The revised CMP will be rolled out in due course.

The EHSS committee reports its activities to the ERM. Information concerning EHSS issues, incidents, legislation and activities are discussed and guidelines given. In 2006, the EHSS Committee also reported its activities to the Board.

The Company has in place a Mark-to-Market committee to monitor its inventory and hedging activities and ensure compliance with the Company's policies and procedures. It meets regularly to review inventory and trading positions, and ensures that these are within established limits.

## Enterprise Risk Management Committee

The ERMC's principal functions are as follows:

- (1) Identifies, measures and monitors the enterprise-wide risks profile of the Group;
- (2) Administers risk mitigation efforts, its costs, and reports to the ExCo the residual risk of the Company;
- (3) Identifies and develops policies and makes recommendations to eliminate or control risks to improve the risk profile; and
- (4) Monitors the implementation of ExCo's decisions on the mitigation efforts and risk parameters.

### *Management Committee*

The Management committee is headed by the CEO and comprises senior management. It meets weekly to review strategic, business and operational issues, and determine policies of the Group to ensure the smooth functioning of the Group. The committee implements and communicates the directions and guidelines of the Board and Board Committees to relevant committees, departments and employees.

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

The Board comprises nine directors. The non-independent non-executive 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, Goon Kok-Loon, Dato Paduka Timothy Ong and Dr Audrey Chin. The chairpersons of the AC and NRC are independent directors. Furthermore, all four members of the NRC are non-executive directors of whom three are independent. The AC has four non-executive and independent directors.

Mr Koh Ban Heng is the sole Executive Director of the Company.

The NRC annually determines the independence of Board members by having each of them complete a questionnaire to test independence against standards established by the Code. The NRC reviewed the independence of each director for 2006 in accordance with the Code's definition of independence and was satisfied that more than 50% of the Board consisted of independent directors.



Dr Audrey Chin receives the SIAS Corporate Governance award

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

The non-executive directors have the opportunity to meet informally before and after Board and Board Committee meetings with and without the presence of management. They communicate by electronic means to develop and discuss strategy and monitor management's performance.

The Board attended the strategy workshop of 2006 and helped develop and reinforce strategic directions of the Group.

The profiles and key information of Board members are found in the Annual Report section entitled 'Information on Directors'.

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

The roles and responsibilities of the Chairman and CEO are distinct and separate. The Chairman, Mr Choo Chiau Beng, is a non-independent non-executive director from the Keppel Group. He does not have any relationship with management that could interfere with his judgement and decision making. He facilitates constructive discussions between Board and management and encourages their effective contribution.

The Chairman has openly engaged the shareholders of the Company at its general meetings.

As the CEO, Mr Koh Ban Heng, is governed by his employment contract with the Company. He leads the management team and the businesses of the Group in keeping with strategic decisions and goals. Mr Choo and Mr Koh are not related.

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

#### Board Membership (Principle 4)

The NRC has the responsibility to ensure that there is a formal and transparent process in the nomination, appointment and re-appointment of directors to the Board. The NRC is also tasked to assess the effectiveness and contributions of the Board to the strategic growth and development of the Company. Consistent with the Code, the chairman of the NRC is independent and is not associated with any substantial shareholder.

In addition, the Company's Articles of Association had from the outset, provided that one-third of the directors are to retire from office at its AGM every year.

Mr Bertie Cheng, Dato Paduka Timothy Ong and Mr Goon Kok-Loon, having been longest in office since their last election, will retire at the AGM fixed for 25 April 2007 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 NRC 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 electronic and telephone communications.

The Committee has encouraged directors to make every effort to attend Board and Board Committee meetings and other meetings either physically, or by electronic medium.

Throughout 2006, directors maintained dialogue with other Board members and management on matters within their purview, over and above the convened meetings.

**Table 3: Date of Directors' Last Re-election**

| Name                      | Age | Position           | Date of Initial Appointment | Date of Last Re-election |
|---------------------------|-----|--------------------|-----------------------------|--------------------------|
| Choo Chiau Beng           | 59  | Chairman           | 3 May 1999                  | 26 April 2006            |
| Koh Ban Heng              | 58  | Executive Director | 21 August 2003              | 27 April 2004            |
| Bertie Cheng Shao Shiong* | 69  | Director           | 18 July 1997                | 25 April 2007            |
| Geoffrey John King        | 59  | Director           | 1 August 2000               | 27 April 2005            |
| Timothy Ong Teck Mong*    | 53  | Director           | 1 August 2001               | 25 April 2007            |
| Chin Wei-Li, Audrey Marie | 49  | Director           | 1 August 2001               | 27 April 2005            |
| Goon Kok-Loon*            | 64  | Director           | 30 July 2003                | 25 April 2007            |
| Teo Soon Hoe              | 57  | Director           | 3 May 1999                  | 26 April 2006            |
| Cheng Hong Kok            | 64  | Director           | 3 May 1999                  | 26 April 2006            |

\* Mr Bertie Cheng Shao Shiong, Dato Paduka Timothy Ong Teck Mong and Mr Goon Kok-Loon will retire at the AGM fixed for 25 April 2007 and offer themselves for re-election. They were selected by lot in accordance with Article 110 of the Articles of Association of the Company.



Communicating with shareholders

Following the annual performance review of the Board, the NRC is of the view that the Board has a good mix of capabilities, expertise and experience to serve the Company and its shareholders.

The NRC continues to hold the view that additional directors could be invited to join and further strengthen the Board, taking into consideration the Company's E&P sector.

Pursuant to its terms of reference, the NRC is charged with the responsibility to evaluate the nomination of new candidates to the Board. New candidates will be assessed based on criteria such as background, academic and professional qualifications, experience and independence.

#### **Board Performance (Principle 5)**

At the close of 2006, the NRC reviewed the performance of the Board as a whole and the performance of each director through questionnaires tailored to the Company's business. Each director was asked to submit responses on the Company's performance and the performance of each director in a '360 degree' evaluation process. A summary report of the findings was presented to the NRC for endorsement by its chairman, Mr Bertie Cheng. The report was then presented to the Board during the corporate governance segment described in this Report.

The assessment parameters included overall contribution by each Board member, attendance and performance at Board and Board Committee meetings, knowledge of the industry and the Group's business activities. The peer evaluation addressed issues such as whether a director continued to contribute effectively, dedication and commitment demonstrated, as well as whether insightful issues were raised. The evaluation parameters for the 2006 Board review had previously been updated to incorporate the revisions to the Code.

The NRC used several financial indicators to measure the Company's performance and took into account the business environment for the year 2006. These included return on assets (ROA), return on capital employed (ROCE), total shareholder's return (TSR), return on equity, return on investment, economic value added (EVA) and earnings per share (EPS).



Mr Geoffrey King at the AGM

In the 2006 Board performance review, it was found that non-executive directors had constructively challenged and assisted in developing proposals on strategy and reviewed the management's performance in achieving agreed goals and objectives. The directors were found to have made strong contributions to the Board. Directors scored well on areas such as industry awareness, providing valuable inputs, knowledge and understanding of finance and accounts, risk management, meeting preparation and raising insightful issues.

The NRC as part of its review took note of the continued in-depth and open discussions at Board and Board Committee meetings.

The NRC assessed the performance of the CEO, Mr Koh Ban Heng, for 2006 according to the performance criteria it approved earlier in the year. The NRC's assessment of Mr Koh's performance was considered against the backdrop of the 2006 business environment before determining the variable component of his remuneration. More information on the remuneration of Mr Koh and other key executives is available in this Report.

#### **Access to Information (Principle 6)**

The management regularly updates the Board on the Group's businesses and performance through financial and other reports. Such updates provide background, explanation as well as disclosure statements, documents, budgets and forecasts.

The Board is kept abreast of strategic business developments concerning the Group at its quarterly meetings by the CEO and senior management. The information provided contains important business developments, significant investments/divestments and projects including reports on financial performance and other performance indicators. Directors affirmed in the 2006 Board performance evaluation that timely, clear, concise and pertinent information concerning the Board agenda items had consistently been provided.

The reports are also intended to keep directors advised of 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 appropriate decisions.

Board and Board Committee papers are sent to directors approximately seven days prior to the meetings for their review. SPC's Management is invited to attend and present papers/updates at Board meetings and to discuss issues which the directors may raise. Directors had access to senior management, attended briefings and held informal discussions on the Group's operations. The Board participated in the Company's strategy workshop in 2006.

In addition, the Board had separate and independent access to the Company Secretary, who attended all Board meetings in 2006. The Company Secretary is also secretary to the ExCo and the NRC.

The Company Secretary has the responsibility to ensure Board procedures are followed, applicable rules and regulations established by the Board and Board Committees are complied with. The Board and Board Committees acknowledged in the 2006 Board performance review that there was adequate information flow within the Board, Board Committees and management. Directors were also invited from time to time to attend seminars pertaining to corporate governance and strategic business 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. The NRC has sought professional advice from independent legal, financial and audit consultants on various issues.

### Remuneration Matters

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

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

#### Disclosure on Remuneration (Principle 9)

The NRC has been charged with the responsibility of developing the policy for executive remuneration and the review of the remuneration for senior management.

The SPC remuneration policy is integral to its Company's corporate strategies. It is designed to drive the Company's workforce at all levels towards performance excellence for the creation and enhancement of stakeholders' values. The policy is primarily focused on attracting, motivating and retaining high performing individuals, as well as aligning employees'

interests with those of the Company's stakeholders. It is aligned to the complexities of the employees' job roles and scope, corporate and individual performance.

SPC's remuneration policy is effected through a performance review and assessment programme. Employees are subjected to this intensive programme which provides a platform for regular discussions on objectives, targets and progress reviews. The process identifies performance gaps and sets directions for enhancements and modifications. This will culminate in a formal year end assessment. The goals and targets are determined in the first month of the year using a balanced scorecard (BSC) matrix comprising of financial and non-financial perspectives. The Company believes that financial success must be complemented by customer service values, internal processes and most importantly, human resource capabilities. The NRC is the steward of this review and uses the findings to assess the contributions of the CEO and senior management in the growth and development of the Group.

The NRC also reviews and determines the remuneration of directors. It has the right to seek internal and external expert advice on the directors' remuneration. The Company has placed great importance on attracting, retaining and motivating the directors. It has in recent years, referred the matter to independent consultants who have advised the Company on methodology and benchmarking.

Non-executive directors do not have any service contract 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.

Non-executive directors are paid an annual basic retainer fee with additional fees for serving on Board Committees. They are participants in the SPC Restricted Share Plan (RSP). Non-executive directors are encouraged to hold the awarded shares for three years or the duration of their term as Board members, whichever is shorter. A breakdown, showing each director's fee proposed for the year 2006 is in Table 4. It also shows the fees paid for the year 2005.

The CEO, Mr Koh Ban Heng, also an Executive Director, is remunerated as a member of management and does not receive director's fees.

There is no employee in the Group who is an immediate family member of a director on the Board, or CEO, and whose remuneration exceeded \$150,000 during the year.

Details of awards of share options and shares under the SPC Share Option Scheme 2000 (the Scheme) and the RSP and Performance Share Plan (PSP) (collectively, the Share Plans) to the CEO/Executive Director and non-executive directors are described in the Directors' Report.

The remuneration of key executives is disclosed in Table 5.

Remuneration comprises fixed and variable components with the latter consisting of short and long term incentives. This composition is applied to all employees.

The fixed component of employees' remuneration is made up of base salary and an annual wage supplement of one month. In line with the national wage philosophy, the Company has consistently set aside a portion of increments to base salary as a monthly variable element to provide

flexibility to respond quickly to different phases of the economic cycle.

The variable performance based component is made up of an annual performance bonus and a long-term incentive of share options and/or share grants. The award of these two components is based on the extent of the corporate and individual performance achievements relative to pre-determined goals. The grant of share options was suspended in 2004 in favour of the RSP and PSP schemes.

To ensure that SPC's remuneration practices remain competitive and reflect roles and contributions, the NRC has from time to time engaged external consultants to advise and recommend the latest trends and best practices in remuneration. The management also works with the NRC to review and improve the Company's remuneration practices to enhance its competitiveness in attracting, motivating and retaining talent, and aligning employees' interests to stakeholders.

## Nominating and Remuneration Committee

The NRC has four Board members and the majority are independent. They are Messrs Bertie Cheng (chairman), Choo Chiau Beng, Geoffrey King and Dr Audrey Chin.

The NRC's principal functions are as follows:

- (A) On evaluation, appointment, nomination and re-appointment of a director, the Committee:
  - (1) Reviews the background, academic and professional qualifications of nominees;
  - (2) Ensures that all directors submit themselves for re-nomination and re-election at least once in every three years;
  - (3) Determines the independence of the directors annually; and
  - (4) Evaluates the performance of each member of the Board and as a whole.
  
- (B) On the remuneration of directors and key employees of the Company, the Committee:
  - (1) Establishes a competitive remuneration framework to attract, retain and motivate directors and key employees;
  - (2) Reviews the Company's relative performance and the performance of individual directors and key executives, and considers their remuneration in totality with long-term incentive schemes such as share option and share-based schemes;
  - (3) Assesses the performance of the Executive Director; and
  - (4) Administers and implements the share-based schemes of the Company.

The RSP and PSP are intended to motivate employees to think and act like 'owners' of the Company, and to incentivise them to excel in their performance and go beyond pre-determined targets and thereby improve the Company's performance. The Share Plans have been effective in motivating employees to work towards achieving stretched goals as well as attracting and retaining talents.

The RSP and PSP contemplate the award of fully paid shares, after pre-determined performance and service conditions have been fulfilled.

The RSP serves to encourage a culture of ownership amongst SPC employees. They are awarded contingent restricted shares on NRC approved pre-determined corporate targets for PATMI and ROCE. The release of an award is determined by the extent to which the targets for these measures are achieved and the contributions and performance of the individual in contributing to the achievement of the targets.

The award is vested annually over a period of three years beginning in the year in which it is released.

The PSP is a long-term incentive to motivate and drive the CEO and key executives to grow the Company to the next performance level. As members of the Company's management team, they are challenged to apply their leadership and business capabilities to grow and strengthen the Company's financial performance. The PSP award is based on pre-determined performance targets, covering a three-year period, set on several financial performance measures. For the 2006 PSP awards, the measures were weighted on the EVA spread, average EPS and absolute TSR as a multiple of Cost of Equity for the performance period of 2006 to 2008. The targets were set at levels beyond business plan targets, so as to motivate and drive the management team to grow the Company to the next level of performance and to capitalise on value generating opportunities for the Company. The PSP award would

**Table 4: Directors/Board Committees' Fees\***

| Name                      | 2006 <sup>#</sup> | 2005           |
|---------------------------|-------------------|----------------|
| Choo Chiau Beng           | 58,000            | 58,000         |
| Koh Ban Heng <sup>^</sup> | –                 | –              |
| Bertie Cheng Shao Shiong  | 38,000            | 38,000         |
| Geoffrey John King        | 32,000            | 32,000         |
| Timothy Ong Teck Mong     | 20,000            | 20,000         |
| Chin Wei-Li, Audrey Marie | 38,000            | 38,000         |
| Goon Kok-Loon             | 32,000            | 32,000         |
| Teo Soon Hoe              | 20,000            | 20,000         |
| Cheng Hong Kok            | 26,000            | 26,000         |
| <b>Total</b>              | <b>264,000</b>    | <b>264,000</b> |

\* Excludes share options and awards under the RSP which are disclosed in the Directors' Report.

<sup>#</sup> The total fee (rounded to the nearest thousand) is subject to shareholders' approval at the forthcoming AGM.

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

Note:

The proposed basic director's fee is \$20,000 per annum (2005: \$20,000 per annum).

**Table 5: Remuneration of Key Executives for the year ended 31 December 2006**

| Remuneration Band & Name of Key Executive | Fixed Base/ Salary (%) | Variable or Performance Related Income/ Bonuses (%) | Benefits-in-Kind (%) | Director's Fees | Share Options in 2006* | Restricted Share Plan <sup>#</sup> (%) | Performance Share Plan <sup>^</sup> |
|---|------------------------|---|----------------------|-----------------|------------------------|--|-------------------------------------|
| <b>\$2,250,000 to \$2,499,999</b>         |                        |   |                      |                 |                        |  |                                     |
| Koh Ban Heng                              | 22                     | 56  | 0                    | 0               | 0                      | 22                                     | 0                                   |
| <b>\$1,000,000 to \$1,249,999</b>         |                        |   |                      |                 |                        |  |                                     |
| Jee-Theng Tony Tan                        | 36                     | 44  | 0                    | 0               | 0                      | 20                                     | 0                                   |
| <b>\$750,000 to \$999,999</b>             |                        |   |                      |                 |                        |  |                                     |
| Lee Chiang Huat                           | 29                     | 49  | 0                    | 0               | 0                      | 22                                     | 0                                   |
| Chris Keong Poh Guan                      | 29                     | 49  | 0                    | 0               | 0                      | 22                                     | 0                                   |
| Woo Siew Cheng                            | 28                     | 50  | 0                    | 0               | 0                      | 22                                     | 0                                   |
| Helen Chong<br>(nee Chia Foong Lan)       | 27                     | 48  | 0                    | 0               | 0                      | 25                                     | 0                                   |

\* In 2006, no share options were issued pursuant to the SPC Share Option Scheme 2000. Grants were suspended in 2004.

# The 2004 RSP awards were released after performance and service conditions were fulfilled. The first and second tranches vested in February 2005 and February 2006 respectively. The third and final tranche vests in 2007.

The 2005 RSP awards were released after performance and service conditions were fulfilled. The first tranche vested in February 2006. The balance two tranches vest over the next two years.

The 2006 RSP awards were granted subject to the fulfillment of performance and service conditions, and scheduled for release after fulfillment of conditions. The three tranches vest over the next three years.

^ The 2004, 2005 and 2006 PSP awards were granted in November 2004, February 2006 and August 2006 respectively. The performance shares will be released upon fulfillment of pre-determined performance targets for a three-year cycle. The 2004 PSP awards vest in 2007. The 2005 and 2006 PSP awards vest in 2008 and 2009 respectively.

be determined by the extent to which the targets for the measures are achieved. The performance shares award would be confirmed by the NRC and vest in the year following the end of the performance period.

In line with the ownership philosophy, the CEO and key executives are required to hold a significant percentage, ranging from 30% to 50% of the total PSP and RSP awards during their tenure with the Company, based on their seniority.

The number of new shares to be issued under the Share Plans and the Scheme is subject to the existing maximum limit of 15% of the Company's total issued share capital, as approved by shareholders.

The Share Plans will be in force for a period of up to ten years unless extended for further periods with the approval of shareholders at a general meeting and subject to any other relevant approvals that may be required.

In February 2006, 380,700 shares were issued and vested pursuant to the second tranche of the 2004 RSP awards, representing approximately 0.074% of the Company's issued share capital as at 31 December 2006. The third and final tranche of the 2004 RSP awards comprising 363,600 shares vests in 2007. These awards were in consideration of performance for 2004.

In February 2006, 448,500 shares were issued and vested pursuant to the first tranche of the 2005 RSP awards, representing approximately 0.087% of the Company's issued share capital as at 31 December 2006. The balance two tranches of the 2005 RSP awards comprising 858,100 shares vests in the next two years. These awards were in consideration of performance for 2005.

In 2006, the company acquired 1,860,000 SPC shares from the market under its share buyback mandate for purposes of share plan awards in 2007.

Since the first vesting of 2004 RSP shares in 2005, a total of 83,900 share awards lapsed due to attrition at the end of 2006.

The Company administers share awards through a web-based system which it helped develop – the SPC Online Share Option and Share Plan System (System). The System has been effective in helping the Company facilitate the offer and administration of the Share Plans, as well as the administration and exercise of share options offered.

The grants of share options under the Scheme to employees have also been based on the individual's BSC and competency ratings. No share options were granted to employees in 2006, as grants were suspended in 2004, in favour of RSP and PSP awards.

The Scheme was approved by shareholders of the Company on 16 May 2000 and will be in force for a period up to ten years unless extended for further periods 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 were made to all eligible employees of the Group.

At the end of 2006, there were 972,000 options outstanding, details of which are shown in Note 31(b) of the Financial Statements. None of the employees and non-executive directors received 5% or more of the total number of share options available under the Scheme.

Details of awards under the Share Plans for the financial year ended 31 December 2006 are described in Note 31(c) of the Notes to the Financial Statements.

### **Accountability and Audit**

#### **Accountability (Principle 10)**

The Board is committed to present a balanced and understandable assessment of the Company's performance, position and prospects in order to inform and engage its stakeholders. The Board's review of the Company's quarterly, half-yearly and full year financial results and its presentation is an integral part of its Board meetings and undergoes full review and discussion before the final approval and release.

The Company issues timely and balanced financial information and announcements of important transactions to its shareholders via SGX-ST's SGXNet to facilitate transparency and build greater trust and confidence.

The Company continued to report quarterly financial results in 2006. These results are available on the Company's corporate website. Information on new initiatives of the Group is disseminated via SGXNet and press releases.

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

The AC assists the Board in reviewing the integrity of SPC's financial reports, its systems and internal controls, and effectiveness of the audit function. It has the authority to investigate matters with or without management's knowledge, including matters of impropriety in financial reporting or other company-related issues.

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.

The AC meets four times annually. It holds additional meetings when required, in order to assist the Board to fulfil its fiduciary and statutory responsibilities relating to financial management and corporate accountability to the shareholders. The AC communicated by electronic medium in addition to their meetings. The Board has found the AC to possess the appropriate skills and qualifications to discharge its

responsibilities. The AC members have the appropriate financial, accounting, business and legal background to fulfil their function and responsibilities. The AC met four times in 2006.

Since 2005, the Company has a Whistleblower Policy in place for the Group which provides whistleblowers with clearly defined channels and processes to report suspected reportable conduct, including a direct channel to the General Manager, Internal Audit and the AC chairperson. This policy aims to encourage employees and relevant external parties to report in good faith, suspected reportable conduct while maintaining confidentiality of the information and the identities of the persons involved in reviews initiated under this policy. It also aims to protect, to the extent reasonably practicable, the whistleblower and persons involved in reviews initiated under this policy, against reprisals. This policy forms part of the SPC Code of Conduct.

The AC maintains open lines of communication with the Board members, management and internal and external 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 Interested Person Transactions (IPT) and quarterly, half-yearly and full year financial statements. The AC reviewed the external auditor's 2006 statutory audit plan, scope, findings and management's responses to the findings.

The external auditors, PricewaterhouseCoopers, have been the statutory auditors since the incorporation of the Company. With the current trend towards corporate transparency and higher corporate governance standards, the Company believes it is timely for a periodic rotation of its external auditors. The AC invited suitably qualified international accounting firms to submit proposals which were evaluated based on audit methodology, key personnel, relevant industry experience, ability to demonstrate smooth audit transition, proposed fees and other criteria. The AC has discussed the matter with the Board and has recommended that Deloitte & Touche be nominated for appointment as the 2007 external auditors at a fee to be determined, subject to the approval of shareholders at the forthcoming AGM.

## Audit Committee

The AC comprises four independent directors, Dr Audrey Chin (chairperson), Messrs Bertie Cheng, Geoffrey King and Goon Kok-Loon. The AC's principal functions are summarised as follows:

- (1) Reviews and ensures compliance with the requirements of the SGX-ST Listing Manual pertaining to the AC's functions;
- (2) Follows the guidelines set out in the Code when performing its duties and responsibilities, wherever possible;
- (3) Reviews Interested Person Transactions;
- (4) Reviews reports received pursuant to the provisions of the SPC Whistleblower Policy and undertakes the proceedings as prescribed;
- (5) Reviews with the internal and external auditors their respective audit plans, scope, reports, findings and actions taken by management;
- (6) Serves as an independent party to review the financial statements presented by management to shareholders, regulators and the general public;
- (7) Reviews the independence of the external auditors annually and recommends the appointment and remuneration of the external auditors;
- (8) Maintains, by holding regular meetings, open lines of communication with the Board, the internal and external auditors to exchange views and information as well as to affirm their respective roles and responsibilities; and
- (9) Investigates any matter within its terms of reference, with 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.

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

At year end, the AC met with the internal and external auditors without the presence of management, to discuss amongst other issues, the Group's internal controls. Internal controls include the Company's financial controls, operational and compliance controls and systems established by management. The external and internal auditors reported that the Group's overall system of internal controls and procedures were effective.

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

Management reported that the methods and procedures for determining IPT had not changed since the date of the last AGM, when the shareholders' mandate for IPT was last renewed. Management accordingly recommended that the Company need 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 believes that the Group's framework of internal financial controls, operational compliance controls and risk management policies established by management are reasonable and well placed to meet the needs of its operational requirements.

The Group has a clearly delineated operating structure based on delegations of authority and reporting structures, code of conduct and other policies affecting the Group.

The Company's internal and external auditors conducted their 2006 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 were reported to the AC.

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

The Company has an Internal Audit Department (IAD) headed by the General Manager, Internal Audit. The General Manager, Internal Audit 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 which would respond on actions to be taken. The IAD submitted quarterly internal audit summary reports to the AC on the status of the audit plans and on major audit findings and actions taken by management. The IAD reported that the Group's overall system of internal controls and procedures was effective in 2006.

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

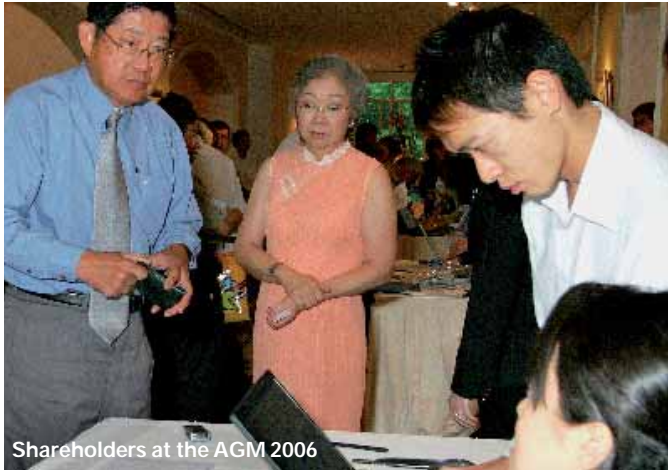
The AC annually reviews the adequacy of the internal audit function and is of the view that it is adequately resourced. The AC is also of the view that the internal audit function is of appropriate standing within the Company and continued to maintain its independence in 2006.

### **Communication with Shareholders**

#### **Regular, Effective and Fair Communication with Shareholders (Principle 14)**

The Group is committed to providing regular, effective and fair communication to its shareholders and the investing public. To this end, the SPC investor relations and communications unit actively plans, manages and handles communications with all stakeholders.

Disclosure of information by the Group is made through communication channels such as corporate announcements via the SGXNet system, the publication of the Annual Report and circulars to shareholders and the holding of shareholders' meetings including the AGM. In addition, SPC publishes the



Shareholders at the AGM 2006

Group's corporate announcements and publications on its corporate website to ensure the latest corporate information is available to all interested persons.

All results, corporate announcements and shareholder reports are issued promptly and within the prescribed periods. In addition to the issue of the Notice of AGM together with the Annual Report, the Notice is also advertised in a major local newspaper and posted on the Company's website and the SGXNet system.

In the spirit of corporate transparency, SPC voluntarily issues SGXNet announcements of significant transactions, notwithstanding that some of these disclosures may not be mandatory. These voluntary efforts are in line with the Company's commitment to engage in open and fair communication with its stakeholders.

Besides open and fair communication, SPC provides investors, both institutional and retail, with clear, balanced and useful information to aid them in their investment decisions. Specific to corporate development updates and direction, the Company furnishes project details, essential background information including future activities and plans. SPC's financial statements are accompanied by analysis of business performances, discussions of prevailing operating conditions as well as outlook and guidance for the year.



Good turnout at the AGM

SPC has a proactive investor relations programme to foster rapport with analysts and fund managers. The CEO, Chief Financial Officer (CFO) and the investor relations team conduct regular meetings and conference calls with analysts and investors and participate in conferences organised by brokerage firms.

In 2006, SPC partnered SIAS in its Shareholder Communication Services Programme to equip retail investors with essential investment insights and skills to better manage their portfolio to meet their individual objectives. Through the SIAS Programme, SPC also elevated its corporate profile among the retail investors through various corporate updates and information dissemination including participation at the SIAS Corporate Profile Seminar in 2006.

Apart from of corporate updates and meetings, SPC's investor relations team is contactable by electronic mail or telephone to provide clarifications with due consideration to SGX-ST's rules on fair disclosure.

In 2006, SPC re-designed its corporate website and created an 'Investor Centre' page to cater to the information needs of the investing public. The Investor Centre is a web-based communication platform complete with corporate press releases, annual reports, corporate governance report, corporate directory and a financial calendar. Additionally, SPC's share price information is available on the home-page



Questions from the audience



Participation by shareholders

and under the Investor Centre. The share price information and related security information are displayed via a live data-feed from SGX-ST obtained through a subscriber service with SGX-ST.

SPC has long recognised the importance of sound corporate governance in creating long-term stakeholder value. The emphasis on high corporate governance standards is a key pillar in enhancing the status and position of the Group in Singapore and internationally.

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

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

Shareholders are given timely notice of the Company's AGM and accordingly, the opportunity to attend or be represented at the meeting. The Company's Articles of Association allows 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 CFO, the Company Secretary, the Internal Auditor and other key executives. The external auditors are also present to address queries from the shareholders. The chairpersons of the AC and NRC have consistently been present at the AGMs.

At the meeting, the Chairman discusses the progress and performance of the Group and encourages meaningful and effective shareholders' participation. Directors and management also 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 resolutions adopted. The Company's practice is consistent with the Code's recommendation that companies avoid 'bundling' resolutions unless the resolutions are interdependent and linked.

Minutes of general meetings of the Company are available to shareholders upon their requests as provided under the Companies Act.

Over the past years, SPC has witnessed an increase in attendance at its AGMs. In 2006, a total of 188 voting shareholders and proxies attended the meeting.

SPC initiated its inaugural share registry analysis in January 2007 and will carry out similar analysis on a regular basis to enhance its understanding of its shareholders. The analysis provides insight to the shareholding spread, shareholders' investment behaviours and the basis of their support for SPC shares. The analysis may also reveal the investment portfolio, holding strength, value growth priorities and other investment concerns of the existing shareholders. With an appreciation of SPC's shareholders, the Company is in a better position to engage such investors.

The Company has not implemented the suggestion in the Code that the Company allow absentia voting and proxies for shareholders using nominee companies. The Company has to be confident that the integrity of any system catering for their use is assured.

## Other Corporate Governance Matters

### Code of Conduct and Practices

SPC recognises the importance of fairness, integrity and professionalism in the conduct of its business activities. It has entrenched these values in the SPC Code of Conduct.

Employees are expected to embrace and practise these values in their everyday conduct especially with customers, suppliers and the public.

Employees are to act in the best interest of the Group and avoid situations that may present a potential conflict of interests.

The policy also addresses the issues of dealings in securities, insider trading and compliance with the relevant legislations. Directors and employees are regularly reminded to observe best conduct practices, particularly in securities trading.

### Dealing in Securities

In keeping with high standards of corporate governance, the Group has adopted the SGX-ST's best practices guide with regard to dealings in the securities of the Company.

Directors and employees are advised not to deal in SPC's securities during the period commencing two weeks before the Group's quarter and half year results and one month before the announcement of the Group's full year 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 in the Company's securities.