

The Directors' BULLETIN

ISSUE 4 • 2010

The Official Newsletter of Singapore Institute of Directors

MICA (P) 093/05/2010



Featuring the BMBA Winners
What Makes Them Tick And How Do They Do Things Differently For Better Corporate Governance

Singapore Institute of Directors

MISSION STATEMENT

To promote the professional development of directors and corporate leaders and encourage the highest standards of corporate governance and ethical conduct

THE INSTITUTE'S OBJECTIVES ARE:

- To be the national association of company directors for the local business community. The SID works closely with its network of members, professionals such as accountants and lawyers, and the authorities to identify ways to uphold and enhance standards of corporate governance.
- To act as a forum for exchange of information on issues relating to corporate governance and directorship in Singapore. The SID plays a leading role in holding discussions and providing feedback to the authorities on matters of concern.
- To organise and conduct professional training courses and seminars to meet the needs of its members and company directors generally. Such courses aim to continually raise the professional standards of directors in Singapore by helping them raise their effectiveness through acquisition of knowledge and skills.
- To regularly publish newsletters, magazines and other publications to update members on relevant issues, keeping them informed of latest developments. These publications also serve as reference materials for company directors.
- To be responsible for the discipline of members. The SID has drawn up a code of conduct for directors in Singapore setting out the standards to ensure they discharge their responsibilities dutifully and diligently.

CONTENTS

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	Page
FROM THE EDITOR	2
CHAIRMAN'S MESSAGE	3
COVER STORY	
Featuring The BMBA Winners - <i>What Makes Them Tick And How Do They Do Things Differently For Better Corporate Governance</i>	5
FEATURES	
Winds Of Change Over The Corporate Governance Landscape	12
Does Good Corporate Governance Translate Into Higher Firm Valuation?	14
Concept Of Legal Representative In PRC Companies - <i>A Look At Legal Issues And Related Practical Concerns</i>	18
Dos And Don'ts For M&A In China	21
Non-Executive Directors' Fees - <i>The State Of The Market</i>	24
Statement Of Good Practice - <i>Appointing Alternate Directors</i>	26
Corporate Governance Developments From Around The World	28
EVENTS COVERAGE	
Launch Of Board Appointment Service And Corporate Membership	31
Members' Networking Night	33
Risk Management and Corporate Governance for Growing Enterprises	35
WELCOME ABOARD (New Members)	37

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The Business Enablers



FROM THE EDITOR

As we approach the end of the 3rd Quarter of 2010, we see a lot more buzz in the economy, both in Singapore and globally. But uncertainties continue to remain amidst conflicting signals from global leaders.

Directors have to continue to operate amidst this global uncertainty, particularly where they do cross-border business. Even smaller companies operating only within Singapore cannot say it is any easier for them as the global issues do find their way into Singapore as well. Making their commercial and business decisions amidst such an environment is certainly not easy. Add to it, as a gentle reminder, the duties that directors are subjected to, not least because they need to act with due skill and care. This duty requires that directors undertake a fair assessment of the environment, acquire necessary information, apply their skills accordingly and arrive at an appropriate decision which is in the best interest of the company. There are no immediate answers, but this is a gentle reminder of the responsibilities that come with the position of a directorship.

Despite the preceding comments, many companies continue to outperform commercially, whilst maintaining top-notch corporate governance standards. A good and tight board led by very able leaders are amongst the key reasons for this. We take the opportunity to present just four companies here - our proud winners of the BMBA as follows:

- Keppel Corporation Limited
- Singapore Telecommunications Limited
- Del Monte Pacific Limited
- Qian Hu Corporation Limited

How do these companies do it? To find out, we asked them, and some of their thoughts are presented in our cover article. Hearing what these Chairmen say suggest that it is not difficult

to have good corporate governance practices. It is a question of commitment at all levels of the hierarchy and taking pride in ensuring the goals are met. An important point to note is that this does not have to be at the expense of profitably.

Apart from the cover story, we have other articles which look at the valuation aspects of corporate governance. This is an area which has seen tremendous interest over the decades with no conclusive evidence as regards whether there is indeed an increase in valuation. Nevertheless, it is an area that continues to find interest with various models proposed from time to time.

This issue also sees the usual coverage of developments around the world as well as recent seminars and other events that the Institute has hosted. On developments, importantly, there have been quite a few developments in the Singapore arena that directors do need to be aware of.

Finally, the Institute is hosting a major forum for directors in November, with a stellar line of speakers and panelists. It is an event not to be missed, least because it explores “how to” issues and focuses on getting it right. You can find more information on the forum at page 4 of this Bulletin.

It now remains for me to thank the many selfless contributors and the very helpful secretariat of the Institute in pulling this issue together. Our call for articles, comments, and thoughts has been bearing fruit and many of you have been very supportive. For that, thank you very much! Do not stop and keep them coming - this is after all a Bulletin for you Directors.

Kala Anandarajah
Editor

CHAIRMAN'S MESSAGE



Dear fellow members,

Warm greetings to all!

Since the last issue of our Bulletin, the Institute has continued to implement its various programs. In early August, we officially launched the Board Appointment Service (BAS) and Corporate Membership scheme. The BAS has generated much interest amongst members and we are hopeful that it will provide companies with an additional avenue in their search for directors, in particular independent directors. The new Corporate Membership scheme will enable the Institute to also engage directly with companies instead of only with directors in their individual capacity.

In mid August, we held the inaugural run of the SID-SPRING Executive Development Program, designed specifically to cater to the needs of SMEs. The program was jointly organised with SPRING Singapore with a special guest speaker from Olam International Ltd to share risk management experience with the participants. While in the past the Institute had mainly been focusing its training and development efforts on listed companies' directors, we are now also focusing on capacity building in SMEs. We believe that all companies regardless of size will benefit from good governance. For SMEs considering IPOs in the near to medium term, sound governance and risk management frameworks are important. To actively engage SMEs, we intend to start networking activities between our members and the directors and senior management of SMEs.

In late August, the Institute held its annual golf tournament at Sentosa Golf Club with Mr Lim Boon Heng, Minister, Prime Minister's Office, as our Guest-of-Honour. The event was very well supported by the corporate community and members which enabled us to record a useful surplus which will be used to help fund the Institute's many activities. I take this opportunity to thank Minister Lim Boon Heng for gracing the occasion; and the various corporations and organizations as well as our members and guests for their continued support of this annual event. I also wish to thank the golf organizing committee under Mr Yeo Wee Kiong's chairmanship and the staff of SID secretariat for their hard work in bringing about a highly successful event.

In this issue of the Bulletin, we have an article on "Winds of Change Over the Corporate Governance Landscape" contributed by our Vice-Chairman, Mr Adrian Chan. This article looks at the recent changes in the corporate governance landscape in the UK in the aftermath of the financial crisis and some of the changes we may expect here in Singapore in view of the latest developments in UK and also in Australia. To better understand the latest developments, we will be inviting two eminent personalities from the UK to address us at a conference which we are organising.

In this regard, the SID Directors Conference 2010, to be held on 15 November 2010 at Marina Bay Sands, will have as its theme "Getting It Right, The Challenges Ahead". Discussions will centre on taking the "right steps forward" in the aftermath of the global financial crisis. Keynote speeches will be delivered by Baroness Sarah Hogg and Sir Richard Broadbent. Baroness Hogg is the Chairman of the Financial Reporting Council, which is UK's independent regulator responsible for promoting high quality corporate governance and reporting. Sir Richard is Deputy Chairman and Senior Independent Director of Barclays PLC. The panelists will comprise outstanding corporate figures, both local and from within the region. This conference promises to be a highly thought provoking event and should be of much interest to members and the corporate community. More information will be disseminated to members soon.

Also taking place in late November is our Annual General Meeting which will be held on Thursday 25 November 2010.

We urge members to "save" these two dates and look forward to seeing many of you at both the Conference and the AGM.

Warm regards,

John KM Lim
Chairman

SID

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SID

Singapore Institute of Directors

A must for all
corporate directors
Monday 15 November 2010

SID DIRECTORS CONFERENCE 2010

GETTING IT RIGHT, THE CHALLENGES AHEAD

A one-day conference organised by Singapore Institute of Directors (SID)
Monday 15 November 2010 from 9.00am – 5.30pm • Marina Bay Sands, Singapore

Featuring Internationally Renowned Keynote Speakers

- **Baroness Sarah Hogg**
Chairman of Financial Reporting Council, United Kingdom
- **Sir Richard Broadbent**
Chairman, Arriva PLC and Deputy Chairman, Barclays Bank PLC

Outstanding Panelists Include

- **Mr Choo Chiau Beng**
CEO, Keppel Corporation
- **Mr Keith Stephenson**
Partner, PricewaterhouseCoopers
- **Mr Lucien Wong**
Managing Partner, Allen & Gledhill LLP
- **Mr Piyush Gupta**
CEO, DBS Bank
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- **Mr Reggie Thein**
Company Director

SID Directors Conference 2010 looks at "Getting It Right, The Challenges Ahead". This conference will bring together regulators, corporate leaders, business practitioners and practising professionals to discuss and exchange views on taking the "right steps forward" in the aftermath of the global financial crisis. Critically, there are two specially designed panel discussions, in addition to the keynote speeches and the panel following that, each focusing on the directors' role in Investor Management and in Risk Management respectively.

Attractively priced as follows:

	Regular Price	Early Bird Price (ends 24 Sep 2010)
SID members	\$780/pax	\$700/pax
Non-members	\$980/pax	\$880/pax

More details about the Conference will be disseminated soon. In the meantime, please contact the SID Secretariat (Tel. 65-6227 2838 or e-mail) to register or for more information. Registration form attached.

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Featuring The BMBA Winners

What Makes Them Tick And How Do They Do Things Differently For Better Corporate Governance

By Kala Anandarajah
Partner, Rajah & Tann LLP &
Editor, The Directors' Bulletin



Conceived in 2005, the Singapore Corporate Awards is intended to honour the best in corporate governance at multiple levels of corporate structures. As noted on the Singapore Corporate Awards website, the biggest reward is the recognition and honour accorded to companies and individuals for their exemplary achievements in corporate disclosure and corporate governance, endorsed by the SGX-ST and all relevant professional bodies and institutions associated with the capital market.

The primary objectives of the Awards are as follows:

- To recognise and honour listed companies and individuals who have helped to raise Singapore's corporate disclosure standards and corporate governance through their corporate practices.
- To showcase companies and key decision makers who have effectively

implemented and promoted corporate disclosure standards and corporate governance in their companies.

- To create a platform for company managements to network and share ideas and views on good corporate governance.

The SCA constitute five of Singapore's key awards - Best Annual Report Award (ARA), the Best Managed Board Award

(BMBA), the Best Investor Relations Award, Best Chief Financial Officer Award, and Best Chief Executive Officer Award - to recognise excellence in shareholder communication and corporate governance. The Awards are organised by BT, supported by SGX with partners from the following organisations:

- ICPAS
- SID
- Citigate Dewe Rogerson i.MAGE
- NUS Business School
- Aon Consulting
- Egon Zehnder International
- IMAS
- SIAS
- Pulses (Official Magazine)

Having completed half a decade of awards presentation, the Singapore

“Critical to achieving high standards of corporate governance is to have an effective, strong and independent board which genuinely believes in corporate governance and actively engages the management.”

Dr Lee Boon Yang, Chairman, Keppel Corporation Limited



Institute of Directors (“Institute”) felt it was helpful to have a chat with the most recent round of winners in 2010 – to simply have them share insights on how they manage to achieve and maintain good corporate governance within their organisation. To this end, the Institute is grateful to each of the winning companies for sharing their views with the Institute. Specifically, the Institute obtained views from Dr Lee Boon Yang (LBY), Chairman, Keppel Corporation Limited, Mr Chumpol NaLamlieng (CNL), Chairman, Singapore Telecommunications Limited, Mr Rolando C Gapud (RCG), Chairman, Del Monte Pacific Limited and Mr Kenny Yap (KY), Executive Chairman & Managing Director, Qian Hu Corporation Limited.

1. What do you see as being good corporate governance?

LBY: Good corporate governance is the institutionalization of proper procedures and processes such that:

- the affairs of the Company will be conducted according to proper business, legal and ethical principles;
- reports on the status of the business are reliable, accurate, and relevant; and
- the board remains in control when decisions on material issues, including major business ventures or investments, are sought.

CNL: Good corporate governance ensures key stakeholders interests are protected and enhances corporate performance and accountability. SingTel aspires to the highest standards of corporate governance and has put in place a set of well-defined policies and processes.

SingTel is listed on both the ASX and SGX and hence complies with global best practices on corporate governance and disclosure standards.

RCG: Good corporate governance means having placed in the corporation a set of processes, systems and policies which govern the way the corporation is directed and managed, including managing the relationships among the stakeholders of the corporation.

KY: I view that as a responsibility and duty, especially as a listed company. People invested in your company and the least you can do is to be fair to the investors by being transparent and have reasonably good corporate governance.

2. How do you ensure that the corporate governance culture pervades through your organisation?

LBY: First and foremost, at the very top, the board and management must uphold the principle that having high standards of corporate governance is in the best interest of shareholders. Together, they should put in place proper structures and internal control

processes and ensure that all employees comply with these procedures.

Critical to achieving high standards of corporate governance is to have an effective, strong and independent board which genuinely believes in corporate governance and actively engages the management. At Keppel, the majority of our directors are independent and our directors fully understand that they are accountable to the shareholders and have the responsibility to safeguard their interests and act at all times in the best interests of the Company.

To assist the board in its oversight function, various Board Committees were formed to focus on key matters such as internal audit, risk management, board composition, succession planning, remuneration and safety. Each committee has clearly defined terms of reference. It is through our Board Committees that our directors actively engage the management and strengthen governance throughout the organisation.

To ensure proper alignment of corporate interests with those of shareholders, proper processes and procedures have been put in place by the respective Board Committees with the support of management.

For instance, to ensure that the development of remuneration policies and fixing of remuneration packages are

formal and transparent, remuneration policies and framework have been formulated by the Remuneration Committee with the support of Group Human Resources and external HR consultants. To ensure objectivity, the Remuneration Committee comprises three non-executive directors, two of whom (including the chairman) are independent and the third is a nominee-director of Keppel's single largest shareholder, Temasek Holdings.

Yet another example of how the Board through the Board Committees engages management and assists in ensuring that proper internal control processes and procedures are institutionalised, is the Board Risk Committee. This Committee assists the Board in examining the effectiveness of the Group's risk management system and guides management in the formulation of risk policies, risk limits and overall risk management system.

To ensure that the Board and Board Committees comprise directors who as a group provide the core competencies and exercise the independent judgment required for effective oversight and direction, the Nominating Committee has formalized the process and criteria for appointment of directors. To ensure continued effectiveness, the Nominating Committee has also formulated processes and criteria for annual evaluation of the performance the Board and individual directors. They are assisted by an Independent Co-ordinator to ensure confidentiality and constructive feedback during the evaluation process. In addition, our Directors are provided with continuing education in areas related to their duties and responsibilities. They also regularly conduct site visits to our facilities to familiarise themselves with the business operations and to meet with the managers responsible for managing such facilities.

CNL: SingTel has a code of internal

corporate governance practices, policy statements and standards and makes this code known to Board members and employees. The code is reviewed and updated to reflect changes to the existing systems or the environment in which the SingTel Group operates.

SingTel's code of conduct for staff sets out principles to guide them in carrying out their duties and responsibilities to the highest standards of personal and corporate integrity when dealing with SingTel, its competitors, customers, suppliers and the community. The code is made available via SingTel's internal website.

An escalation process is also in place for the Board, Senior Management, and internal and external auditors to be kept informed of any corporate crisis in a timely manner.

Since 2005, a whistle-blower policy has been put in place to provide employees with well-defined and accessible channels within the Group, including a direct channel to SingTel's Internal Audit unit and whistle-blower hotline service that is independently managed by an external party for reporting suspected fraud, corruption, dishonest practices or other similar matters.

RCG: It starts with the Board of Directors making sure that the policies and principles are clearly communicated to management and every level of the organization.

KY: By setting example. If the top management is not open to their subordinates, there is no way the entity can cultivate good corporate governance. In order to do that, the communication channels in the organization must be effective and multiple.

3. How is risk managed? Who are your critical people in this regard?

LBV: The direct responsibility to manage business and operational risks lies with the people who run the day to day operations and affairs of the

respective businesses. The respective businesses have their own risk champions and committees. Group oversight is provided by the Group Risk Management Division which assists the Board Risk Committee to carry out periodic review of the Group's risk-related policies and limits to ensure that they continue to support the Group's business objectives and address business risks adequately and effectively.

The Board Risk Committee, supported by Group Risk Management Division, provides oversight and guides management in the formulation of risk policies, risk limits and overall risk management framework. With the guidance of the Board Risk Committee, an Enterprise Risk Management (ERM) Framework was formulated to provide a holistic and systematic approach to risk management to better prepare the Group to respond to the dynamic business environment and leverage on business opportunities. The ERM comprises risk management methodology, guidelines and assessment templates that are standardised across all business units. Risk management has become an integral part of the Group's strategic and budget review exercise, policy formulation and revision, project and investment evaluation, and staff performance assessment processes. The Board Risk Committee also reviews and monitors the progress of the Group's Business Continuity Plans (BCP) implementation, with particular emphasis on establishing robust plans to ensure that the Group can respond seamlessly to external events while minimising operational disruptions. To improve business resilience, continuous effort is made in scanning for possible threats, apart from the impending pandemic flu threats that might affect business operations.

CNL: SingTel's philosophy and approach for effective risk management is guided by three key principles:



“Good corporate governance ensures key stakeholders interests are protected and enhances corporate performance and accountability.”

Mr Chumpol NaLamlieng, Chairman,
Singapore Telecommunications Limited

- Culture. We seek to build a strong risk management and control culture by setting the appropriate tone at the top, promoting awareness, ownership and proactive management of key risks and promoting accountability. In short, we seek to promote a risk-conscious workforce across the Group.
- Structure. We aim to develop an appropriate organisational structure that promotes good corporate governance, provides for proper segregation of duties, clearly defines risk taking responsibility and authority, and promotes ownership and accountability for risk taking.
- Process. We aim to implement robust processes and systems for effective identification, quantification, monitoring, mitigating and management of risk. We also seek to improve our risk management and internal control policies and procedures on an on-going basis to ensure that they remain sound and relevant by benchmarking against global best practices.

Based on these principles, the Group undertakes a continuous process of risk identification, monitoring, management and reporting of risks throughout the organisation to provide assurance to investors and relevant stakeholders.

(Please see questions 4 and 5 for the critical people in risk management.)

RCG: Operationally, the risk management responsibility is lodged with the CFO and the Internal Auditor. Together they report directly to the Audit Committee who then reports to the Board its findings and recommendations.

KY: This is a very tricky question. Risk is hard to manage. Overly avoiding risk makes no business sense and not managing risk is irresponsible. The Chairman, all executive directors, and independent directors must all be involved in discussing risks in all their meetings.

4. How involved is the board as a whole and the individual directors in corporate governance matters and risk management in particular?

LBV: The Board and Board Committees are only as effective as the individual directors who comprise them. In Keppel’s context, the Board as a whole and the respective Board Committees are an integral part of Keppel’s corporate governance structure, and each of our directors take very seriously his or her responsibility of ensuring that proper governance processes are in place and observed.

As for the Board’s involvement in risk management, the Board is assisted by the Board Risk Committee which in turn is supported by the Group Risk Management Division. To demonstrate the intense involvement of the Board Risk Committee in assisting in the management of the Group’s business and operational risks, we highlight below the actions taken by the Board Risk Committee last year in the midst of the global economic and financial crisis:

The Board Risk Committee met six times in 2009 to review the effectiveness of the Group’s risk management system and provide guidance and close monitoring as follows:-

Review of risk-related policies and limits: The Group’s risk-related policies and limits were examined to ensure that policies address the prevailing business risks adequately and effectively and take into consideration the then current economic climate and risk appetite of the Group.

Review of significant risk issues and their respective mitigation plans. In response to the dynamic and fast-changing business environment, the BRC reviewed key risk issues and mitigation actions with the Senior Management. Two of the key risk issues addressed in 2009 were:

- **Risk Management Strategy on Cashflow Management:** The global financial crisis had highlighted the importance of managing liquidity risks and counterparty credit risks. The Board Risk Committee paid much attention on the risk mitigation strategies in this regard. Several meetings were held with Senior Management to discuss strengthening the Group's cashflow position and enhancing the Group's resilience to the credit tightening situation. In addition, the Board Risk Committee also helped address issues concerning counterparty risks.
- **Impact Assessment and Review of Group's Exposure:** Under the guidance of the Board Risk Committee, impact assessment and stress testing analyses were performed. The Board Risk Committee also reviewed and discussed updates on country-exposure and reports on the political, economic and regulatory issues in the countries in which the Group has significant operations.

Enhancing Operational Resilience through Business Continuity Management: The Board Risk Committee reviewed and monitored the progress of the implementation of the Group's Business Continuity Plan, with particular emphasis on establishing robust business continuity plans to

ensure that the Group could respond seamlessly to external events while minimizing operational disruptions.

Guidance to Enhance ERM Workplan/Initiatives: As part of its continuous review, the Board Risk Committee provided guidance on new initiatives and proposals to enhance the Group's risk management system. The risk management plan was reviewed and modified in the course of the year to incorporate specific initiatives/activities, as appropriate, to address changing market conditions.

CNL: The Board has overall responsibility for the oversight of material risks in the Group's business. The Finance, Investment and Risk Committee (FIRC) assists the Board in the oversight of the Group's risk profile and policies, effectiveness of the Group's risk management system including the identification and management of significant risks and reports to the Board on material matters, findings and recommendations pertaining to risk management. The Audit Committee provides oversight of the financial reporting risk and the adequacy and effectiveness of the Group's internal control and compliance systems.

To assist the Board in the identification and assessment of key risks within the business, the Board has approved a Group Risk Framework which

defines 25 categories of risks ranging from environmental, operational and management decision making risks. The Group adopts the Committee of Sponsoring Organisations of the Treadway Commission (COSO) Model and the Australia/New Zealand Risk Management Standard (AS/NZ 4360) as the best practice benchmarks for assessing the soundness of its financial reporting, and the efficiency and effectiveness of its risk management, internal control and compliance systems.

RCG: As a corporate body representing the shareholders' interests, the board takes special interest in corporate governance issues. Individually, as members of board committees the members focus on particularly areas covered by their respective committees. For example, members of the audit committee will focus on the integrity of the financial reports, independence of the external auditor and risk management issues.

KY: All directors must be involved, especially the financial director and chairman.

5. How much is delegated internally to management and to external professionals to ensure better corporate governance within the organisation?



“Good corporate governance means having placed in the corporation a set of processes, systems, policies which governs the way the corporation is directed and managed, including managing the relationships among the stakeholders of the corporation.”

Mr Rolando C Gapud, Chairman, Del Monte Pacific Limited



“I view that as a responsibility and duty, especially as a listed company. People invested in your company and the least you can do is to be fair to the investors by being transparent and have reasonably good corporate governance.”

Mr Kenny Yap, Executive Chairman & Managing Director, Qian Hu Corporation Limited

LBV: Keppel’s corporate governance initiatives are by and large those of management. The Board and Board Committees provide invaluable guidance in the review and implementation of those initiatives.

CNL: The identification and management of risk is delegated to management which is responsible for the implementation of risk management strategy, policies and processes to facilitate the achievement of business plans and goals.

The Risk Management Committee, comprising relevant members from the Senior Management team, is responsible for setting the direction of corporate risk management and monitoring the implementation of risk management policies and procedures including the adequacy of the Group’s insurance programme. The Risk Management Committee reports to the Finance, Investment and Risk Committee (FIRC) on a regular basis.

The Group has in place a formal programme of risk and control self assessment whereby line personnel are involved in the ongoing assessment and improvement of risk management and controls in selected areas. We engage external consultants periodically to review the Group’s risk management framework and processes.

RCG: Ultimately the implementation of corporate governance principles and policies within the organization is the responsibility of the management. The external professionals such as the external auditor, external counsel and other consultants provide the check and balance needed to ensure compliance with the relevant policies.

KY: I believe having a better corporate governance is a creation from within. Thus a culture of openness, being responsible and to ask the top management to share those values is critical.

6. How is disclosure managed; ie how and when is a decision made to disclose matters?

LBV: Press and SGXnet announcements are reviewed by management before release. The Board reviews announcements of more significant matters.

CNL: We adopt an open and non-discriminatory approach in our communication with shareholders, the investment community and the media. We aim to provide relevant, consistent and timely information - regarding the Group’s performance, progress and prospects – to assist shareholders and investors in their investment decisions. Additionally, we organise investor and/or media briefings for

key announcements, such as quarterly financial results, major investments and other business developments.

SingTel has a committee at the senior management level responsible for the company’s market disclosure policy. The policy contains guidelines and procedures for internal reporting and decision-making with regard to the disclosure of material information.

There are formal policies and procedures to ensure that SingTel complies with its disclosure obligations under the listing rules of the SGX and ASX. The guiding principle for the market disclosure policy is that SingTel must immediately notify the market via an announcement to SGX and ASX any information that is necessary to avoid the establishment of a false market in SingTel securities or would be likely to materially affect the price or value of SingTel securities.

RCG: First the SGX has clear rules on matters for disclosure. For these, no decisions are required since it is simply a matter of compliance. Beyond the SGX requirements, matters which management thinks will affect the operations materially must be disclosed on a timely and balanced basis. The CEO normally makes this decision and is reported to the board regularly.

KY: Disclosure decision is made by looking from the shareholders’

perspective and asking yourself, if I am the shareholder, should I know this?

7. What guidance can you give to other companies to enable them to elevate corporate governance standards within their organisations?

LBY: Each company has its own legacies and operates under slightly different circumstances. Hence there is no one size fits all approach to achieve higher level of governance standards. What is important is for each company to attract competent, dedicated and independent directors with some domain knowledge as well as wider and relevant experience to create a strong and multi-faceted board. The board should then establish appropriate board committees tapping on the competencies and experience of directors so that these committees are in the best position to advise and work with management on the implementation of sound governance measures. An additional area to consider would be including corporate governance KPIs in the CEOs' scorecard. The key issue is buy-in or internalisation of good governance by employees at every level. This will ensure that a company is able to live up to not just the letters but also the spirit of good governance.

CNL: Corporate governance is more than complying with a set of rules and codes. It is also about fostering a company-wide culture that strives for disclosure while protecting shareholders' interests.

When formulating our corporate governance policies, SingTel always looks at best practices for guidance and tailors these practices to work within the SingTel context. Below are some examples of such policies we have put in place over the years:

Senior Management's long-term incentive and remuneration are aligned to shareholder value. The remuneration structure for Senior Management comprises of fixed, variable, provident/superannuation fund, benefits and long-term incentives. For long-term incentive under the SingTel Performance Share Plan (PSP), there are two categories of awards – General Awards for eligible staff at certain grades and Senior Management Awards for eligible Senior Management Staff. The final number of shares vested to staff will depend on the level of achievements of targets set over a three-year period. The vesting criteria are based on Total Shareholders' Return and Economic Profit.

Last year, we introduced an annual limit on the total number of shares that can be issued under the PSP to no more than 1 per cent of share capital.

In our annual report, we detail remuneration of the Top 5 senior executives in actual amounts, compared to remuneration bands as required under the listing rules.

SingTel is committed to maintaining high standards of disclosure and corporate transparency. In line with timely and relevant disclosure, our quarterly results and full year results are issued within 45 days, in line with the 45 days requirement for quarterly results and exceeding the 60 days requirement for full year results. This is despite the Group's diversified operations in many countries and the extensive co-ordination with our international associates and joint ventures, which have different reporting timelines. In addition, we implemented quarterly financial reporting since June 2000 even before it became mandatory in Singapore.

Since 2004, SingTel's GCEO and GCFO have provided assurance to the Board on the integrity of the company's financial statements, risk management, compliance and internal control systems. This certification covers SingTel and our subsidiaries which are under its management control.

In line with corporate governance best practices, SingTel has appointed a lead director in 2009. The lead director, appointed by the Board, serves in a lead capacity to coordinate the activities of the non-executive Directors in circumstances where it would be inappropriate for the Chairman to serve in such capacity and to assist the Chairman and the Board to assure effective corporate governance in managing the affairs of the Board and the Company.

This year, we introduced poll voting at our Annual General Meeting, to ensure that the overall result is a more accurate representation of shareholders' votes. SingTel is one of the first few companies in Singapore to do so.

RCG: First the board must clearly articulate what the principles and policies of good governance are and ensure that it is communicated to the organization. Secondly an open line of communication must be established to provide feedback between management and the board.

KY: Top management must imagine what kind of questions shareholders have in mind and disclose and answer those perceived questions as much as possible. With this attitude, I believe the standard will be raised.

Winds Of Change Over The Corporate Governance Landscape

By Adrian Chan
Vice Chairman, Singapore Institute of Directors



Changes to the corporate governance landscape in Singapore are looming on the horizon. The Corporate Governance Council, which was established earlier this year, has been tasked to review the adequacy of the current Code of Corporate Governance (the “Singapore Code”). In the course of this review, we can expect a re-examination of issues such as the tightening of the test of independence, limiting the tenure of non-executive directors and increasing the proportion of independent directors on listed boards. If we cast our eyes beyond the immediate horizon, what other impending corporate governance issues are expected to be debated?

For the more recent trends in corporate governance, we can look to the changes just implemented in the UK and Australia for guidance. The Financial Reporting Council (“FRC”) published the new UK Corporate Governance Code (the “UK Code”) in May this year, following a year-long review triggered by the financial crisis. The

Australian Securities Exchange (“ASX”) also released amendments to the ASX Corporate Governance Principles and Recommendations in June. Developments in these jurisdictions could foreshadow similar developments in corporate governance in Singapore.

First, the issue of Board balance and composition has come under focus. The

Singapore Code now requires a strong and independent element on the Board, with independent directors making up at least one-third, and the Board comprising a group with core competencies such as accounting or finance, business or management or other relevant experience or knowledge. For banks and insurers, the Monetary Authority of Singapore (“MAS”) has proposed that a director will be considered non-independent after serving for a continuous period of nine years and that the number of independent directors be raised from one-third to a majority. These MAS proposals are likely to be seriously considered by the Corporate Governance Council when considering updates to the Singapore Code that apply to all listed companies here.

The UK Code has however changed the emphasis from 50% independence to a Board having “an appropriate balance of skills, experience, independence and knowledge”. Furthermore, the UK Code now explicitly provides that the

benefits of greater diversity (including as to gender) should be taken into consideration when board appointments are made. The overall focus of the changes to the UK Code appears to be a move away from the importance of mere independence in itself, to also emphasize diversity. Independence is still important, but balance and diversity have been given more emphasis. The goal is to encourage Boards to be well balanced and to avoid “group think” by ensuring that a sufficiently broad and varied range of skills and experience can be called upon. These aims are laudable and would be just as welcome in the Singapore context.

Although the UK Code itself stops short of setting any specific quotas or targets with regard to female directors (as has happened in other European jurisdictions), by including a specific reference to gender diversity, the aim of the UK Code is clearly to increase the number of women sitting on boards. The FRC’s report on the UK Code notes that, in 2009, women accounted for only 12% of all directors in FTSE 100 companies. In Singapore, a recent study published in 2009 states that female non-executive directors only make up 5% of the larger Singapore listed companies. Women directors in Singapore have still some way to catch up with their counterparts in the West and improving our gender mix may be an issue that deserves looking into.

The changes introduced by the ASX (that take effect from 2011 in Australia) go even further than the UK. The recommendations introduced in Australia require a company to adopt and disclose a diversity policy which should include requirements for the Board to establish measurable objectives for achieving gender diversity. For now, it seems unlikely that this approach to achieving gender diversity will take root in the Singapore Code. The Australian approach to gender diversity has already borne fruit – the Australian Institute of Company Directors reported in June 2010 that the number of women appointed to the Boards of ASX 200

entities has substantially increased from 5% in 2009, to 24% in the first half of 2010.

Secondly, the FRC introduced in July this year a Stewardship Code, which is a blue-print to encourage investors to be more proactive, organized and transparent in engaging with Board directors, to publicly disclose their policy on stewardship, their voting records and to protect and enhance shareholder value. This Stewardship Code is apparently the first of its type in the world and works in conjunction with the UK Code to plug the perceived gap in corporate governance that emerged during the crisis where institutional investors were felt to have neglected their responsibilities as shareholder-owners to call Boards to account. It remains to be seen whether such a code would be relevant in Singapore, where shareholdings are quite often concentrated with major shareholders, families or even Temasek, and there is generally less institutional investor influence. The Stewardship Code nevertheless represents an interesting development as it casts the spotlight squarely on shareholders as a vital cog that keeps the machinery of governance running smoothly.

Thirdly, a keenly debated issue in the UK has been over the FRC requirement for all directors of FTSE 350 companies to be annually re-elected. In Singapore, directors are currently required to be re-elected only once every three years. Supporters of annual re-election claim that it will promote greater accountability and engagement between the Board and shareholders. They argue that it will give shareholders an opportunity to examine the personal performance of individual directors and hold each director responsible for his own shortcomings. For others, the proposal is controversial on the grounds that corporate governance should focus on the Board’s collective responsibility and should avoid tempting directors to take a short-term view to appease shareholders. Concerns have been

expressed that annual re-elections could also potentially de-stabilise Boards.

In Singapore, such a measure is unlikely to be a cause of great concern within the boardroom. With the typical Singapore listed company having fairly concentrated shareholding ownership, the majority shareholder is not likely to adopt a practice of removing directors without due cause. Even in the UK, the FRC emphasized that, from 2000 to 2009, only 19 directors on the FTSE All Share Index lost a re-appointment vote.

Lastly, the UK Code now requires that, in addition to the Board’s own internal annual evaluation of its performance and that of individual directors, the evaluation of the Boards of FTSE 350 companies should be externally facilitated at least once every three years. While this is no doubt a requirement that could serve to independently police and enforce a more transparent and effective corporate culture, there may be some disquiet over its effectiveness and the increased compliance costs that it will necessarily entail. For external facilitation to work, the facilitators will need to have credibility with the Board and be appropriately qualified and established, there will have to be an adequate supply of suitable facilitators and the Singapore Code should provide guidance regarding the extent of the review and the relevant criteria for the external evaluation. Although the external facilitator can bring greater objectivity to the evaluation process, the external review must also result in real value being added to the corporate governance process.

At the end of the day, simple compliance with the Code will not of itself ensure good governance. Ultimately, all of us would wish to be served by more finely balanced, appropriately experienced and competent Boards, which are more accountable to and engage constructively with shareholders. That would be a better measure of effective corporate governance.

Does Good Corporate Governance Translate Into Higher Firm Valuation?

By Jeremy Goh
Associate Professor of Finance,
Singapore Management University



This article provides evidence suggesting that shareholders of firms listed on the Singapore Exchange (SGX) appear willing to pay a premium for firms with better corporate governance practices, particularly if the firms in question are Government-Linked companies.

A decade ago, corporate governance and its relation to both shareholder rights and shareholder value were arcane topics. Since then the media have educated their audiences through a steady stream of stories, making companies such as Enron, Tyco, Global Crossing, and even Satyam, household names, both for their apparent insufficient governance structures and their managers' associated excesses (Levitt, 2005). Today, topics such as managerial ownership and board independence are part of the public conversation. In 2002, the US Congress enacted the Sarbanes-Oxley Act, which set minimum standards of conduct and

addressed some of the most egregious failures of the corporate governance system. This movement towards better corporate governance is not limited to the United States. Around the world, investors, regulators and law makers are demanding better corporate governance practices.

Corporate Governance and Firm Valuation

Given the push for better corporate governance, defining what constitute good corporate governance has become increasingly important. The basic

assumption underlying a modern capitalistic society is that good governance encourages managers to make decisions in the best interests of the owners (shareholders) of the companies they lead. In a recent study, Bebchuk (2005) claims that the balance of power between owners and managers is currently too heavily weighted in favor of management. He further argues that granting shareholders the power to initiate, as well as to vote on major corporate proposals would improve corporate governance by placing more power in the hands of the owners.

Using US data, studies by Gompers, Ishii, and Metrick (2003), Bebchuk, Cohen and Ferrell (2009), Chi (2005), and Caton and Goh (2008) provide empirical support for Bebchuk's (2005) thesis by examining the relation between firm value and governance structure. Each study finds that firms whose shareholders have more power relative

to management tend to have relatively higher market values. Chi (2005), in addition, presents evidence indicating that causality runs in one direction only, from governance structure to firm value. He concludes that firms can reduce agency costs and thereby enhance value by granting more rights to shareholders.

Similar results are reported by researchers studying Asian markets. In their study of firms listed on the Hong Kong Stock Exchange, Cheung, Connelly, Limpaphayom, and Zhou (2007) find empirical evidence showing a firm's market valuation is positively related to its corporate governance practices. Black et al. (2006) create a governance score card using a survey conducted by the Korean Stock Exchange, and find that firms with higher scores, meaning better governance, have higher market values. Research done on firms listed on the Thailand Stock Exchange yields similar results. These findings are consistent with the notion that better corporate governance practices are rewarded with higher market valuation, and it is not just a phenomenon observed in mature markets.

Singapore Corporate Governance Index

What about firms listed on the Singapore Stock Exchange (SGX)? In the McKinsey Global Investor Opinion Survey on Corporate Governance (2002), Singaporean shareholders are willing to pay, on average, 21% more for a well governed firm compared to a poorly governed firm. In other words, by improving corporate governance practices at a firm, a firm's market value may increase by slightly more than a fifth of its original value (see Figure 1). However, as with many studies that use survey data, there is a concern that the results may be due to a selection bias in the data.

A complementary method of testing the impact of corporate governance in Singapore that is not subject to the criticisms of using surveys is to empirically examine publicly available corporate data. To accomplish this, however, it is necessary to find a measure of the corporate governance practices of Singapore companies. Following principles set forth by the Organization for Economic Co-operation and

Development (OECD), I use publicly available information from companies listed on the SGX in 2008 to construct a Singapore Corporate Governance Index (SCGI). The SCGI is designed to measure the quality of the corporate governance practices of a company. The index is constructed from data collected from Singapore firms' annual reports and Web sites. The actual data collected is used to answer questions derived from the Revised OECD Principles of Corporate Governance (OECD, 2004). The SCGI is an equally weighted index that covers the five aspects of corporate governance set forth by the OECD: the rights of shareholders; equitable treatment of shareholders; roles of stakeholders in corporate governance; disclosure and transparency; and responsibilities of the board (see Figure 2). These five aspects also cover corporate governance principles suggested by SGX, and allows for a direct assessment of each firm in each specific aspect of corporate governance.

Out of a maximum score of 100 points, SGX-listed firms average about 64, while the lowest and highest scores are 34 and 83 points, respectively. While

Figure 1: McKinsey Global Investor Opinion Survey on Corporate Governance, 2002

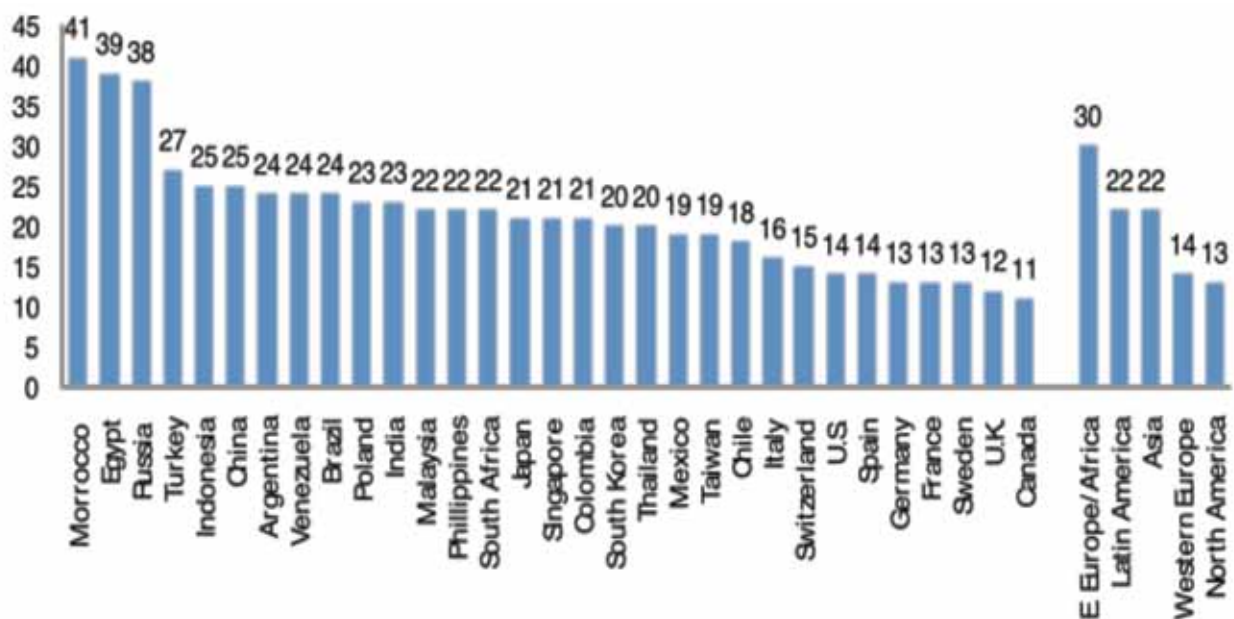


Figure 2: OECD 2004 principles of corporate governance



SGX-listed firms score relatively well in equitable treatment of shareholders, disclosure and transparency, and responsibilities of the board, there is much room for improvement in the other two aspects, especially with regards to the rights of shareholders (see Figure 3). Interestingly, the SCGI data suggests that government-linked companies listed on the SGX follow better corporate governance practices than non-state-owned firms (Figure 4).

In order to ascertain the relationship between corporate governance and firm performance, I use Return on Assets (ROA) and Tobin's Q. The first measure is an indicator of how profitable a company is with assets under control and is a commonly used financial metric for comparing firms. The second measure, Tobin's Q, is somewhat more forward looking. Tobin's Q is a ratio of the market value of the company to the value of the company's equity book

value. Put simply, a firm with a high Tobin's Q is more valuable in the market relative to its book value than a firm with a low Tobin's Q. Relationships between governance practices and performance of Singapore firms are summarized in Figure 5.

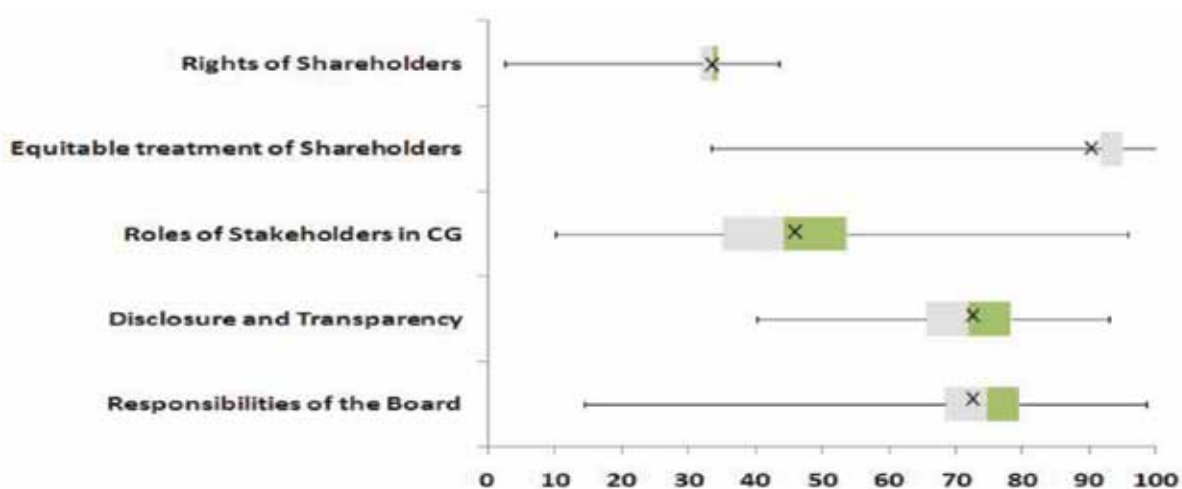
There appears to be a monotonic relationship between governance groupings and firm performance, suggesting that better governed firms outperform more poorly governed ones. That is, firms with better SCGI scores exhibit higher Tobin's Q and ROA. In computations not included in the figure, I find that each additional SCGI point translates into an increase of 7% in the market valuation of a firm.

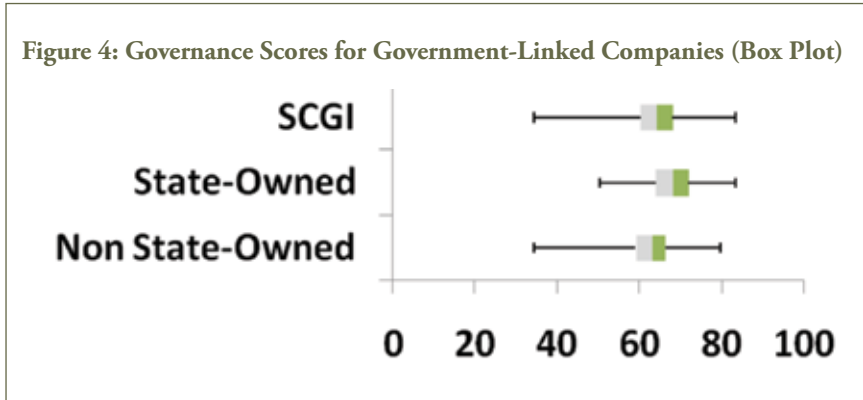
Government-linked firms perform better than non-government-linked firm on both Tobin's Q and ROA, scoring nearly 20% higher and 75% higher, respectively. Unreported regression results indicate a non-linear relationship between state ownership and Tobin's Q ratios, which suggests that government linked firms place significant emphasis on corporate governance.

Moving Forward

With extensive media coverage of sensational lapses in corporate governance of companies around the global and locally, regulators, company

Figure 3: Components of the Singapore Corporate Governance Index (Box Plot)



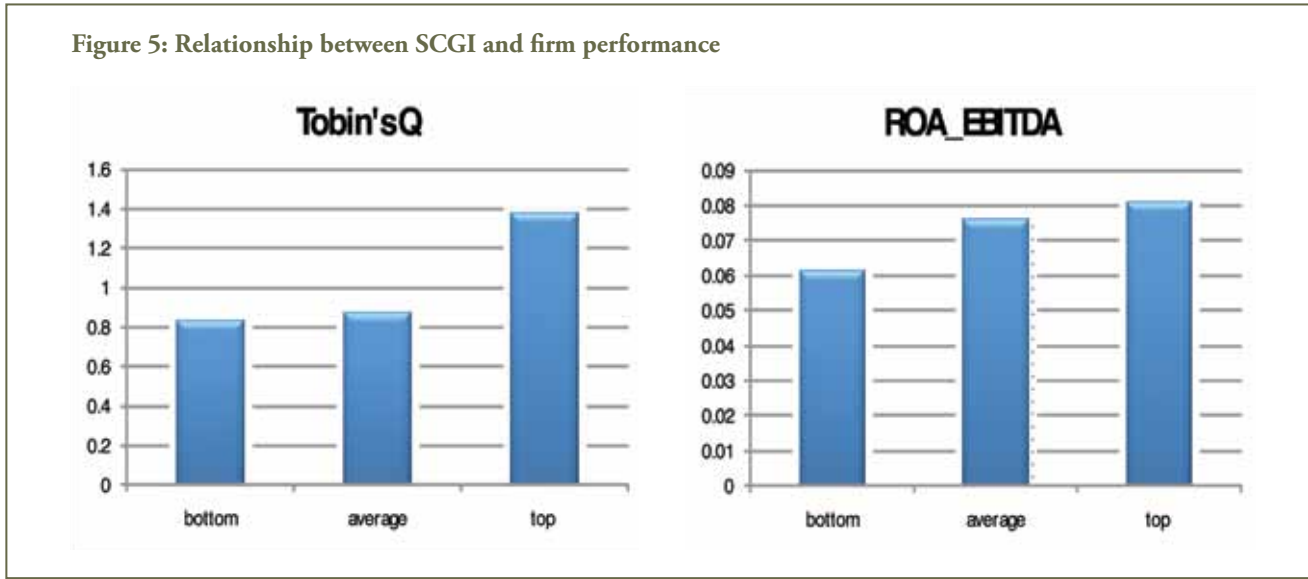


directors, and shareholders are looking into ways to improve practices among publicly listed companies. There are those who question whether enhanced corporate governance practices will benefit investors and companies,

and whether investors truly place value on good corporate governance. The construction of the Singapore Corporate Governance Index (SCGI) for companies listed in the SGX enables us to examine these questions. I find

a statistically significant and positive relation between the SCGI and firm performance measures. The findings provide support for the notion that better corporate governance practices are consistent with value maximization for SGX-listed firms.

At present, however, one cannot draw any inference on the causal relationship between firm performance and corporate governance for SGX-listed companies. This is due to the lack of long term time-series data. However, a possible and interesting future study would be to investigate the effect of incremental increases in the SCGI and the change in the market value of the firm.



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Concept Of Legal Representative In PRC Companies - A Look At Legal Issues And Related Practical Concerns



In a luncheon seminar organised by the Singapore Institute of Directors held at the Marina Mandarin hotel on May 21, Mr Tan Chong Huat, Managing Partner of Khatarr Wong, addressed the practical issues and safeguard measures which company directors could consider when confronted with situations where companies are involved in disputes and tussles concerning the rights, powers and responsibilities of legal representatives in incorporated companies in the People's Republic of China.

Many foreign enterprises including Singaporean enterprises have established representative offices in China as the first step of their entry strategy into China. Through a representative office, these enterprises can engage in a limited range of activities which form the basis for the enterprise to become further involved

with China in various forms such as forming a wholly owned enterprise, joint ventures with Chinese partners and investing in domestic enterprises.

These will in turn allow foreign investors to have a long term presence in China and for such entities, they must have a

“Legal Representative” – an individual with broad powers and potentially unlimited liability.

What is a Legal Representative?

Under the Company Law of China, all businesses established in China must have a legal representative. Simply put, a legal representative is, a natural person appointed to act on the company's behalf. The Civil Law further provides that it is the legal representative who acts for and on behalf of the company.

For foreign investors, it is important to note that it is provided under the Company Law that the legal representative of a company may be the chairman of its board of directors or its general manager. For equity and contractual joint ventures, the

designated positions are chairman of the board, and chairman of the board or director of joint managerial committee respectively. It is also required that the legal representative be registered with company administration authorities.

Selecting and Appointing a Legal Representative

The selection of the legal representative is critical. Companies must select their legal representative carefully by checking their identity and background, and legal representatives should be made aware of the responsibilities and liabilities that come with the position.

As the legal representative will wield important powers, it is important to exercise prudence and ensure at the beginning of the formation of the business that the articles of association sufficiently state the legal representative's power. Some ways include specific limitations expressly set out in the Articles or a general limitation stating that the authority of the legal representative is set out for each transaction as approved by way of a board resolution.

In order to avoid difficulties when terminating existing, and appointing a new legal representative, the audience was advised to consider the execution of undated termination-related/appointment documents prior to the appointment of the company's legal

representative. Service agreements should incorporate undertakings such as the obligation to return company seals upon termination of the service agreement and the legal representative's duty to provide full assistance to register a new legal representative, as the immediate registration of the appointment of a new legal representative with the authority is required. In China, seals are widely used and recognised by the authorities and agencies with preference over signatures. The seals used by a company include company seal, legal representative seal and the finance seal.

Tips for Avoiding Problems with Legal Representatives

In short, here are some key corporate governance tips for companies with respect to legal representatives:

- Take extreme care in selecting the person who will be your legal representative.
- Ensure that the articles of association sufficiently limit the legal representative's powers.
- Resignation documents should be prepared, in advance, for the legal representative to sign upon appointment.
- Termination documents should specify the full assistance for the appointment of a new legal representative and the return of



company documents and seals.

- Ensure that the company seals are kept in a secured location, establish and enforce a transparent procedure involving several key position holders in various departments for their use which may include the use of logbooks for the purpose of record for any and all transactions. As a policy, it is suggested that all seals not be removed out of the office unless with the board's specific approval.
- Take every effort to understand your business in China instead of relying on your senior business associates based in China.

Different companies have different preferences for their legal representative: some prefer an existing employee, even if no one with Chinese management experience is available; while others prefer to recruit directly from mainland China. It is preferable that someone highly familiar with the parent company's culture and – more importantly – who can be trusted completely to be chosen as the company's legal representative.

A director of the parent company is often a prudent choice for legal representative, since they also hold separate duties to the parent company under the laws of its place of establishment. The company may then select a different person with greater local market experience as the general manager for the company's China operations.





When you are dealing with a legal representative of a counterparty, it is important to ascertain the identity of the legal representative and the scope of his or her powers via checks on the counterparty's business license, articles of association and independent searches with the company administration authority.

Legal Representative: Qualifications

The selected individual must have civil capacity, i.e. be at least 18 years of age. Currently, there are no requirements on qualifications and nationality. However, there are preclusions on persons being selected as legal representatives such as:

- having no or limited capacity for civil acts;
- being under criminal penalty or under criminal enforcement measures;
- being wanted by public security authority or state security authority;
- being sentenced to criminal punishment for corruption, bribery, seizing property or disrupting the order of the socialist market economy where not more than five years have elapsed since the expiration of the execution period OR being sentenced to criminal punishment for other crimes where not more than three years have elapsed since the expiration

of the execution period; OR being deprived of political rights for committing a crime where not more than five years have elapsed since the expiration of the execution period

- having served as the legal representative, director or manager of an enterprise that went bankrupt due to poor business management and was liquidated, where he or she bears personal liability for such bankruptcy and not more than three years have elapsed since the date of completion of the bankruptcy liquidation;



- having served as the legal representative of an enterprise that had its business license revoked and was ordered to close down for violation of the law, where he or she bears personal liability for such violation and not more than three years have elapsed since the date of revocation of the company's or enterprise's business license;
- having a comparatively large personal debt that has fallen due but has not been settled

Dealing with a Legal Representative from a Counterparty

When you are dealing with a legal representative of a counterparty, it is important to ascertain the identity of the legal representative and the scope of his or her powers via checks on the counterparty's business license, articles of association and independent searches with the company administration authority.

For execution of contracts, you may insist on both the signature and seal of the legal representative with an appropriate resolution of the board or shareholders as the case may merit.

In conclusion, companies are encouraged to take the necessary precautions to protect their operations in China and their appointed individuals as well as when dealing with a legal representative of a counterparty. The above precautions not only reduce risks, but also help to attract and retain experienced expatriate and local managers in China's increasingly tight employment market.

Dos And Don'ts For M&A In China



No matter where you are in the world, the fundamentals of the mergers and acquisition process should be the same, and that includes China. The process is about identifying the value, carrying out due diligence, negotiating the deal, and delivering value after completion.

These are the words of Ryan Reynoldson, partner at KPMG China. He is Head of Retail for KPMG China and is also the Consumer Markets line of business leader for KPMG China's Transactions and Restructuring practice. He held a seminar co-organised by the Singapore Institute of Directors and KPMG at the Marina Mandarin.

Due Diligence's Role in Identifying Value

The fundamentals of due diligence process should be the same in China as anywhere else in the world but it is "typically more difficult." The key

question in a due diligence process is, will the deal deliver value? For example, Ryan said, "why has the company got margins that are better than its competitors and are they sustainable?"

Common Deal Issues in China

Ryan lists his common deal issues in emerging markets: quality of financial information, weak internal controls/systems, cultural challenges, regulatory compliance, intellectual property, ownership structures, tax compliance and business practices.

In Ryan's opinion, in regards to China all these areas are "absolutely critical." "The reality is [that] typically, profitability is overstated. And often times, the working capital, or the liquidity of the company is completely misstated."

This often requires you to look for alternative ways to assess the value of the business. This can be done by asking, "What is the cost base of this business? What are we actually signing up for? and how much money is being made, rather than just [taking] margins off the financial statement."

"When you are doing diligence in China...in one or two days you can probably find out what are the big issues with the company," Ryan points out. "So you can do a lot of the work, assess a lot of the risk before you spend a lot of your money," he added. "And that is where I see a lot of the best practices happening. I think the best of the best companies that are acquiring businesses



“When you are doing legal due diligence, make sure you get into the details. The details are very, very important in China.”

Ryan Renoldson, partner at KPMG China

in China are really doing it this way.”

Weak Internal Controls/ Systems

Ryan said that “basically, controls are often weak or non-existent” or they may be in the form of “manual controls or punitive controls rather than proper systems.” For example, you could have a company that has almost no control over inventories, has manual records yet there are surprisingly few inventory losses.”

Ryan further stated that one should “understand [that] there might not be a quick fix on day one and you might need to put some stop gaps there initially to make these improvements. One must also understand [that] there will be costs.”

Business Practices

Certain common business practices in

China may be deemed unacceptable by foreign companies and may not be sustainable in China, as regulations, and their enforcement, improve. Such practices can include kickbacks in the supply or distribution channel or facilitation payments to officials. “The company often has to change business practices from within,” he said.



The advice given here is that one needs to understand the business model and business practices in detail as part of due diligence. If you do not, then upon buying a business, you may have to make changes “and all of a sudden you may have lost a revenue stream or some of your suppliers will no longer do business with you”.

Tax Compliance

In China, tax non-compliance is one of the biggest issues. “If you are looking at private owned companies it is possible that 50%, 60% even 70% of their sales maybe going through personal bank accounts and are not being reported for tax purposes. Tax exposures aside, simply verifying whether such sales are real can be difficult in such cases.”

“I think the key [issue] on tax is [that] you are going to have make changes to the business post-transaction. Clearly, transactions are going to have to be brought on the book; you [will] need to be compliant,” he said.

Ways to Mitigate Tax Exposure

Valuation and, contractual protection or transaction structure, are helpful, although “usually a combination of both” is needed. The issue in China is that voluntary remediation is necessary, without which, full compliance may not be possible.

“You might buy a company and go to the local tax bureau and say ‘OK we have done some bad things in the past, here is a cheque for our past tax underpayments, let’s sort it out.’ But they might not want that money because all of a sudden a lot of tax revenue appears and it begs the question from their supervisors ‘Why was the tax \$10 last year and \$100 this year?’”

Ownership Structures

The key here is understanding that there is a difference between privately owned companies in China and state owned companies. “When you acquire a business in a state owned company there [are] more procedures involved.”

Cultural Challenges

“Cultural challenges, [are] perhaps less of an issue for a Singapore company going into China than say a US company; there are still challenges, however, such as a company’s understanding of, acceptance of and readiness for due diligence.”

Local management talent is also important. “You cannot necessarily just buy a business in China and then send people from Singapore to go run it necessarily.”

On protectionism, Ryan said that whilst foreign investment has liberalised, local protectionism remains.



In sum, Ryan’s learning points are that one should understand the market, understand the regulators, and cultivate relationships with them.

Negotiating and Completing the Deal

Negotiations in China are often difficult. There are often gaps in valuation expectations, fuelled by the high multiples of listed companies in China. Concerns over regulatory roadblocks, some real and some exaggerated, can derail talks. Further, rectifying, or agreeing whether there is a need to rectify, non-compliant tax or regulatory compliance issues can prove

difficult. “When you are doing legal due diligence, make sure you get into the details. The details are very, very important in China.”

Ryan also advised that it is critical that you know your potential partners – local management or a target’s shareholders in a joint venture or minority investment – since reliance on contracts alone can be problematic. The problem is of enforcement. “You can have a very strong SPA, you can have lots of different terms but at the end of the day you are often down to the local court to enforce it”.

In terms of delivering the value, a good due diligence process is just the beginning. You need to develop an integration plan well in advance of closing the deal and commit your best people to ensure its success to make the necessary changes to the business and realize the expected synergies that justified the price of the deal. “If you do a wholly owned investment or a majority owned investment obviously you have more ability to change. But if you are getting into a joint venture or minority investment, it can be quite problematic because you are relying on the local management to make these changes.”



Non-Executive Directors' Fees The State Of The Market

By Jon Robinson
Managing Director of Freshwater
Advisers Pte Ltd; a company
specialising in providing company
boards, investors and management
with a source of independent and
impartial advice on a wide range of
compensation issues



The performance of Singapore companies was much improved in 2009 with companies typically reporting top and bottom line growth. The variable portions of executive compensation packages have, generally, increased correspondingly. But what about the fees paid to the non-executive and independent directors (NED's)?

We have now completed our second study of directors' fees in Singapore listed companies. We have reviewed fee practices in 334 public companies including those in the Straits Times Index (STI), FTSE ST Mid-Cap Index and companies with at least S\$ 100 million in market capitalisation as at 31 December 2009.

The table beside shows the total fees paid for NED's as well as the average fee per NED. We have also compared the percentile positions to the previous year.

As can be seen, NED fees have generally stayed flat over the past years even when the number of NED's has increased and business performance has improved. Talking with directors, we sense an unwillingness to ask shareholders

to increase fees when the economic environment was still uncertain.

Over the last year, only 13% of companies granted some form of equity to NED's in addition to cash fees. The value of these grants was generally in the range S\$20,000 to S\$70,000 with a median value of S\$30,000. The form of equity is usually share options despite the criticism that options create the misaligned incentives for directors.

Some companies, typically larger ones, provide details of their internal fee structures; either showing fees for each individual or a defined fee structure.

Percentile	Total Fees (S\$)	% Inc	Average Fees (S\$)	% Inc
P10	114,500	-15%	30,000	-21%
P25	153,750	0%	37,500	-3%
Median	240,000	0%	51,700	0%
P75	387,477	10%	73,723	13%
P90	684,972	28%	103,961	30%

Base (S\$)	Quartile	Fees Relative to Base		
		Chair	Dpy Chair	Lead Ind
24,900	P10	1.5	1.3	n/a
30,000	P25	1.6	1.5	n/a
45,000	Median	1.9	1.5	1.6
51,000	P75	2.0	1.7	n/a
80,000	P90	2.1	1.8	n/a

Base (S\$)	Quartile	Additional Fees Relative to Base					
		Audit		Nomination		Remuneration	
		Chair	Member	Chair	Member	Chair	Member
24,900	P10	0.3	0.0	0.1	0.0	0.1	0.0
30,000	P25	0.5	0.3	0.2	0.1	0.2	0.1
45,000	Median	0.6	0.4	0.4	0.2	0.4	0.2
51,000	P75	0.8	0.4	0.4	0.3	0.4	0.3
80,000	P90	0.9	0.5	0.5	0.3	0.5	0.3

The practice is to set a base fee for NED's and then specific fees for board and committee chairmen as well as committee member fees

A board chairman could expect double the base fee with an audit committee chairman receiving an additional 60% of the base fee and chairmen of the remuneration and nominating committees getting an additional 40% of the base.

Committee members also get paid additional fees: some 40% for the audit committee and around 20% for the other committees.

These differences in the remuneration structure are appropriate given the additional work load of committee chairman and audit committee members. However, despite increasing demands placed on audit committees, we are not seeing their fees increasing any faster than general increases. The work of the Corporate Governance Council will likely increase directors' workloads and, potentially, the remuneration and

nomination committees will become more active.

One area where we are seeing change is the practice of seeking approval for fees in advance; directors can then be

paid during the year rather than waiting for their fees until after the annual general meeting. In 2008, only 11% of companies had this prior approval but in 2009 the practice had been adopted by 20% of companies. We would expect this percentage to rise sharply in the next few years; once directors realise that this is acceptable to shareholders then they will shake off their reluctance to ask.

Our advice to boards is that they should have a regular review of their fee levels and structures to reflect their growing responsibilities and, where it is a regional or global business, their fees should reflect broader international practice as well as Singapore rates. We also believe that boards should carefully consider using equity in their fees with, perhaps, guidance on the amount of equity a director should own.

A comprehensive analysis of NED fees is available from Freshwater Advisers; contact: info@freshwateradvisers.com



A board chairman could expect double the base fee with an audit committee chairman receiving an additional 60% of the base fee and chairmen of the remuneration and nominating committees getting an additional 40% of the base.

Statement Of Good Practice Appointing Alternate Directors



Introduction

An alternate director is generally a person who is appointed to attend Board meetings on behalf of a director of a company when the said principal director is otherwise unable to attend. For Singapore companies, Section 4(1) of the Companies Act defines a “director” to include alternate directors and they are therefore full directors under the law. Nevertheless, the right to appoint alternate directors would have to be provided for in the articles of association of the company. In the absence of such an express right in the articles, the directors may not be able to appoint alternates for themselves.

Rights and Powers of Alternate Directors

If a company has articles of association similar to Article 82 of the standard Table A articles found in the Fourth Schedule to the Companies Act, the alternate director who is appointed shall be entitled to notice of meetings of directors and to attend and vote at such meetings, and to exercise all the powers of the principal director in his place. Articles of association are commonly crafted quite widely to bestow upon the alternate director fairly broad powers, rights and authorities at meetings of directors that the principal director

would have enjoyed, had the alternate director not been appointed.

The notice appointing the alternate director should set out and be clear as to the terms of the alternate’s appointment, his powers, the circumstances they are to be exercised, any restrictions on his authority, the scope of his responsibilities and obligations and his remuneration and benefits.

Method of Appointment

Article 82 of Table A provides that the principal director may by notice in writing appoint any person (whether or

not a shareholder of the company) to be his alternate, but the appointment requires the approval of the rest of the Board. Some articles do not require the Board to approve the appointment of the alternate and it is left to the principal director’s discretion. The relevant article may also provide that the alternate may be one of the existing directors or that a person may not act as alternate director for more than one director of the company.

Term of Appointment

An alternate director continues in office either for a specific period, until

he resigns, until his appointment is terminated by his principal director or until the appointment of the principal director is itself terminated. Once a principal director vacates his office, his alternate director automatically vacates his office as well.

If the principal director wishes to remove his alternate, the removal should be effected by written notice served upon the alternate, with a copy to the company, and otherwise in compliance with the articles of association. Some articles may provide for the Board to be able to remove the alternate from office by a resolution of the directors.

Alternate directors do not normally personally stand for re-election at Annual General Meetings. If the appointor is standing for re-election and is re-elected, the appointment of the alternate director would continue. It is recommended that any resolution put before shareholders for the re-election of a principal director disclose and make it clear (in the notice of general meeting or in the notes thereto) that the principal director has appointed an alternate, who will continue in office if the appointor is re-elected. The alternate director should also be given a full director's profile in the Annual Report similar to the other directors.

Remuneration of Alternate Directors

The alternate director is not usually entitled to receive any remuneration from the company, and the principal director should specify in his written notice appointing the alternate whether the alternate is entitled to a proportionate amount of the remuneration payable by the company to the principal director.

Role of Alternate Directors

The alternate director is viewed to be the alter ego of the principal director, and performs a function similar (to an extent) as that of a proxy at a general meeting. There is however a significant difference. The alternate director is a full director and officer of the company himself in the eyes of the law and owes the same fiduciary duties and is subject to the same liabilities to the company. Some articles make this

clear by specifying that the alternate director shall alone be responsible to the company for his own acts and defaults and shall not be deemed to be the agent for his appointor.

Since the alternate director is a fiduciary to the company, he will not find refuge from his duties at law by following the directions or instructions of his appointor indiscriminately. Alternate directors are obliged to exercise independent judgement in the carrying out of their duties and should not subordinate their judgements to that of their appointors. Alternate directors that are appointed should ensure that they are fully apprised and made aware of the background and history to the matters laid before the Board as they face and grapple with these issues in their personal capacity while discharging their fiduciary and other duties to the company.

Alternate Directors to Independent Directors

Given that the alternate director is appointed to be the alter ego of the principal director, he should in theory carry out the same role as that of his appointor. If, for example, the principal director is an independent director for the purposes of the Code of Corporate Governance, the alternate director that he appoints to attend Board meetings in his absence should similarly be independent under the Code.

Generally, since independent directors are called upon to exercise objective judgement on corporate affairs independently from management and are chosen for their specific competence, expertise and experience, one would not ordinarily expect independent directors to have to appoint alternates to stand in for them. However, there could be certain special circumstances that justify the appointment of an alternate director for an independent director and it should be incumbent on the Board to ensure that these reasons and the credentials of the alternate are sufficiently explained and disclosed to shareholders and the investing public when the appointment is made (and also referred to in the Corporate Governance Report that is contained in the Annual Report).

The Nominating Committee can assist the Board to review the reasons for such an appointment and to recommend the appointment of the alternate to the Board whenever appropriate. It may well be that the alternate is a potential candidate being assessed for appointment to the Board in his own right, is being prepared to assume the Board seat outright or is acquainting himself with the workings of the Board and the company concerned for succession purposes.

More usually, an alternate may be considered where the principal director is expected to be away for a specific period for study leave, medical leave, overseas commitments or other reasons, but intends to return to resume his duties in due course. If the absence of the principal director is permanent or for a significantly extended period of time, the absent director should consider stepping down and allowing the Nominating Committee and the Board to appoint a replacement director, rather than have an alternate take his place on a prolonged basis. If a principal director is not able to commit and give sufficient time and attention to the affairs of his company, appointing an alternate is no substitute to the principal director's obligation to contribute effectively and demonstrate commitment to his role as director.

Each Board to Adopt Guidelines

For transparency, the Nominating Committee and the Board should consider adopting clear and specific policies and guidelines for the appointment of alternate directors for each individual company. These express policies and guidelines may well differ from company to company as circumstances require. Guidance can, for example, be given on whether there should be a limit on the period of time that an alternate can be allowed to hold his appointment, whether there should be a limit to the number of directors that can have alternates on the Board at any one time and whether the alternate is permitted to attend Board meetings when the principal director is present. The alternate director should in all cases be able to add value to the Board in his own capacity.

Corporate Governance Developments From Around The World

By Annabelle Yip
Partner, Wong Partnership LLP



United Kingdom

Financial Reporting Council publishes UK Stewardship Code

On 2 July 2010, the UK Financial Reporting Council (“FRC”) published the first Stewardship Code for institutional investors following the publication in May of the updated UK Corporate Governance Code for

listed companies. The Code includes principles on:

- The monitoring of investee companies;
- The escalation of activities taken to protect or enhance shareholder value;
- Collective engagement;
- Voting policy;

- Managing conflicts of interest; and
- Public reporting and reporting to clients.

The purpose of the Code is to improve the quality of corporate governance through promoting better dialogue between shareholders and company boards, and more transparency about the way in which investors oversee the companies they own.

The Stewardship Code is available from the FRC site here:

<http://www.frc.org.uk/press/pub2306.html>

Provision of Non-Audit Services by Auditors and Guidance for Audit Committees

On 23 July 2010, the FRC published an updated guidance to audit committees on determining whether a company’s auditor should be allowed to provide

particular non-audit services. Among other things, the guidance sets out how to distinguish between those non-audit services which are closely related to an audit and which give rise to a very low threat to auditor objectivity and those where the threats need more careful consideration. The guidance was published for the purposes of consultation and is still in draft form.

The consultation document, 'Revisions to FRC Guidance on Audit Committees: Non-Audit Services' is available from the FRC site here:

<http://www.frc.org.uk/apb/press/pub2326.html>

Guidance on Effective Board Performance

On 29 July 2010, the UK Institute of Chartered Secretaries and Administrators ("ICSA") published a draft guidance, "Improving board effectiveness", for public consultation. The ICSA was asked by the Financial Reporting Council to develop the guidance, and it is intended to complement the new UK Corporate Governance Code which was issued in May. The recommendations set out in the draft include the following:

- The importance of the board's role in creating a high-performance culture which maximises the opportunities for value creation and minimises risk;
- The need to create an environment of challenge in the boardroom;
- The value of well-informed and high-quality board decision making;
- Diversity of psychological types and of personal attributes in board composition;
- The advantages of a good training and development program designed to improve directors' skills experience and knowledge; and
- The benefits of regular and bespoke

board evaluation to explore how well the board is functioning.

The guidance is available from the ICSA site here:

<http://www.icsa.org.uk/assets/files/pdfs/consultations/2010/Higgs%20Responses/ICSA%20Review%20of%20the%20Higgs%20Guidance%20on%20behalf%20of%20the%20FRC.pdf>

New Zealand

New Zealand Securities Commission Issues Report on Corporate Governance Reporting

On 28 July 2010, the New Zealand Securities Commission ("Commission") published its latest review of corporate governance reporting. The Commission's review found that many companies disclosed relevant information on:

- board members' independence, expertise and experience;
- the use of board committees, such as remuneration and audit committees;
- remuneration policies for directors and executives;
- risk management policies and processes; and
- processes for ensuring external auditors' quality and independence.

However, many issuers did not disclose matters relating to the following Corporate Governance Principles:

- Observing and fostering high ethical standards, such as compliance with a code of ethics;
- Building constructive relationships with shareholders, e.g. establishing market disclosure, communications and continuous disclosure policies; and
- Considering and respecting stakeholders' interests, including stakeholder relations policies and other social and environmental disclosures.

Further information is available from the Commission's site here:

<http://www.sec-com.govt.nz/new/releases/2010/2807101.shtml>

Australia

ASIC Releases Guidance on a Director's Duty to Prevent Insolvent Trading

On 29 July 2010, the Australian Securities and Investments Commission ("ASIC") released regulatory guidance to assist directors to understand and comply with their duty under the Corporations Act 2001 to prevent insolvent trading. The guide, Regulatory Guide 217 'Duty to prevent insolvent



trading: Guide for directors', sets out the following four key principles for directors:

- keep themselves informed about the company's financial position and affairs;
- regularly assess the company's solvency and investigate financial difficulties immediately;
- obtain appropriate professional advice to help address the company's financial difficulties where necessary; and
- consider and act in a timely manner on the advice.

The regulatory guide is available from the ASIC site here:

<http://www.asic.gov.au/asic/asic.nsf/byheadline/10-164AD+ASIC+releases+guidance+on+a+director's+duty+to+prevent+insolvent+trading?openDocument>

Listing Rule Amendments

The ASX recently amended its Listing Rules as follows:

- On 4 August 2010, the ASX announced that S&P / ASX 300 Index entities must have a remuneration committee comprised solely of non executive directors. This requirement will come into effect on 1 July 2011.
- On 19 July 2010, the ASX announced that listed entities will be required to adopt and disclose a company trading policy on when directors and other key management personnel can trade in the entity's securities. It also issued a Guidance Note to assist listed entities comply with their obligations under this new requirement.

The amendments to the Listing Rules are available on the ASX website here:

http://www.asx.com.au/resources/newsletters/companies_update/archive/CompaniesUpdate_20100813_0710_HTML.htm



Changes to Corporate Governance Principles and Recommendations

On 30 June 2010, the ASX Corporate Governance Council issued an amended Principles of Good Corporate Governance and Best Practice Recommendations. The changes include a requirement that companies develop and disclose a board diversity policy which should include diversity as to age, gender, ethnicity and cultural background. It also encourages companies to provide greater transparency of the processes which the board adopts in searching for and selecting new directors to the board.

Further information is available on the ASX site here:

http://www.asx.com.au/about/pdf/cg_marked_up_amendments_30_june_10.pdf

United States

SEC seeks Comment on US proxy system

On 14 July 2010, the US Securities and Exchange Commission ("SEC") voted unanimously to issue a concept release seeking public comment on the US proxy system and asking whether rule revisions should be considered to promote greater efficiency and transparency. The SEC's concept release focuses on the accuracy and transparency of the voting process, the manner in which shareholders and corporations communicate, and the relationship between voting power and economic interest.

The concept release is available on the SEC site here:

<http://www.sec.gov/news/press/2010/2010-122.htm>

Launch Of Board Appointment Service And Corporate Membership



On 5 August 2010, the Institute officially launched its new Board Appointment Service and its new Corporate Membership scheme at the auditorium of SGX Centre. The event was attended by more than 150 members and guests.

In his welcome speech, Mr John Lim, Chairman of SID, said that as an institute of directors, SID had from its very beginning focused on training and development of directors. While it would continue to focus on training, the institute felt that focusing on training by itself was not sufficient. The institute should also assist companies to recruit suitable directors, i.e. the “right ingredients”. The institute firmly believes that an effective Board is the key to good corporate governance.

Mr Lim said that the new Board Appointment Service (BAS) will provide companies with an additional avenue in their search for suitable directors. The

BAS would try to match a company’s requirements/criteria with those of candidates in our database. He added that the institute would also be able to assist companies to evaluate candidates as it has in-principle arrangements with two global search firms for that purpose.

On the Corporate Membership scheme, Mr Lim said that so far the institute had only admitted individuals as members and felt that there is a need to engage companies more holistically by admitting companies as members directly. A host of benefits would be made available to corporate members. He hoped that companies, both listed and non listed, would sign up as members.





In her speech at the same event, Ms Yeo Lian Sim, Chief Regulatory Officer of SGX, spoke on the important role expected of directors. She said that while the Exchange, as the regulator, can only monitor companies from “outside”, directors, being “insiders”, should play the major role of ensuring compliance with rules and regulation and good governance. The Exchange can only query companies when there is a perceived lack of disclosure while directors are in a better position to

ensure full and timely disclosure of material information.

Ms Yeo said that directors should make all efforts to familiarize themselves with the companies which they serve, in particular its corporate governance framework and controls besides its businesses and the environment in which the companies operate. For directors joining a company just before its IPO, they should not pass up the opportunity of working with the various

professional advisers involved at that stage to fully understand the company.

Mr Giang Sovann then took the audience through a presentation on the matching service offered under the Board Appointment Service. A lively Q&A session followed.

SID would like to thank the speakers, members and guests for their presence and support at the launch and SGX for the complimentary use of the auditorium.



Members' Networking Night



An evening talk on “Are You What You Eat, Do and Talk?” was held on 30 July 2010 at the Waterboat House along Fullerton Road. The speakers were from Parkway Cancer Centre and a certified laughter therapist.

Dr Foo Kian Fong, an oncologist, spoke on “Cancer Myths Busted”; Ms Fahma Sunarja, a dietician, spoke on “Stay On Top With Superfoods” while Mr Tom Low, a certified Laughter Yoga Therapist spoke on “Laugh Your pains Away”.

Cocktails amongst members and guests followed after the talks. The event was attended by about 50 people and was sponsored by Parkway Cancer Centre.

SID thank the speakers, members and guests for their presence and Parkway Cancer Centre for its kind sponsorship of the event.





Risk Management and Corporate Governance for Growing Enterprises



A two-day Executive Development Program jointly organised by SPRING Singapore and SID, to promote good corporate governance in small to mid-cap listed companies, SMEs and privately-owned emerging enterprises, was held from 16-17 August 2010.

The program included modules on Enterprise Risk Management, Practical Guides for Effective Boards, M&A Risk Assessment & Successful Execution and Strategic & Financial Risk Management to improve governance.

The special guest speaker was Mr Rajeev Kadam from Olam International Ltd who spoke on the Olam experience in risk management and corporate governance. Other speakers included lawyers from Stamford Law Corporation, trainers from Jacob Business Armour, Pacific International Business Associates and Vita LifeLong Learning.



The welcome address and opening remarks were given by Mr John Lim, Chairman of SID and Ms Choy Sau Kook, Assistant Chief Executive of SPRING Singapore respectively.

SID thank all the speakers and panelists for their kind contribution; the participants for attending the program and SPRING Singapore for its collaboration with SID.





Welcome Aboard

June 2010

Chen	Yee Seng Colin	Low	Ming Wah	Tan	Teck Wei
Cheong	Tuck Kuan Ed	Low	Meng Teck Edwin	Teah	Seow Lian Jane
Chew	Yow Foo	Ong	Peng Tsin	Teo	Zee Vee
Chew	Mei Kwang Kenneth	P'ng	Chuen Ooi	Thor	Chin Keong
Chew	Keng Keong	Petrucci	Paul	Vakharia	Abbas
Chow	Kam Wing	Seah	Kiin Peng	Wee	Darryl
De Bakker	Ferdinand	Soh	Eng San Alvin	Wee	Koon San
Khoo	Song Koon	Soh	Kim Siang	Wong	Wai Keen Kenny
Leong	Yung Chee	Stornes	Leonard Opitz	Yen	Gary
Liew	Siow Guan Patrick	Tan	Suan Jin	Yeung	Yeok Wah
Lim	Buay Eng	Tan	Peng Kwee		

July 2010

Ballas	Nicholas Peter	Lim	Woon Cheng Sylvia	Ramasamy	Dhinakaran
Batubara	David	Lim	Kee Hee	Tang	Fook Cheong Johnson
Budge	Keith David	Lin	Song	Tay	Kim Choon Kimmy
Giam	Lay Hoon	Loo	Peng Siang Roger	Teng	Yeow Heng Michael
Hermawan	Fridiana Herman	Lui	Bernard	Tivey	Graeme
Lai	Teck Poh	Meers	Simon	Wong	Loke Chang
Lau	Eng Seng	Ng	Sok Lee	Yong	Venetia
Lim	Yoke Hean	Ong	Seow Eng		

August 2010

Ang	Ah Lay	Kong	Wei Li	Quek	Chiau Liong
Aw	Siew Juan	Krishnamoorthi	Shrinivas	See	Chin Teik
Cheah	Wee Teong	Ramji		Smit	Peter F.
Cheng	Woei Fen	Levy-Lambert	Guillaume	Supramaniam	Paul
Cheung	Pui Yuen	Lim	Choon Wah	Tai	Chee Yick
Chew	Tuan Chiong	Lim	Boon Ping	Tan	Kian Woo
Cullum	Simon	Lim	Vincent	Tan	Yong Hwa
Fong	Tony	Lin	Yan	Tan	Bian Ee
Foo	Gerald	Lo	Siew Whye	Tan	Young Heng
Goh	Puay Guan	Lye	Hoong Yip Raymond	Tang	Koon Kay Edmund
Goo	Liang Yin	McGrath	Paraic	Teo	Siew Heng Cavin
Gwee	Choon Guan Paul	Milner	Winston Terence	Williams	Maurice
Koh	Constance	Ong	Pang Liang		

Call for articles, thoughts, snippets, etc.

The institute would like to hear from you. Send us articles, thoughts or even short snippets of issues that you are keen on, that you want to share about, or that keeps you awake at night. It only needs to relate to directors and/or corporate governance. For articles, keep it to 1200 to 1500 words at most. Send your materials by email to the Institute at secretariat@sid.org.sg

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