

## Corporate Governance Report

### INTRODUCTION

The Board of SFI and its Management are committed to achieving high standards of corporate conduct and place overriding importance on its Corporate Governance practices and systems, so as to ensure greater transparency and protection of shareholder interests.

Our principles of corporate governance reflect our belief that integrity, excellence in execution and commitment by our people supported by sound policies, practices and internal controls are the success elements that will help us create long-term value and returns for our shareholders.

Integrity and professionalism are the cornerstone of our commitment to build a top class Company of which our shareholders, staff, customers, suppliers and other stakeholders can be justifiably proud of.

This Report sets out the Corporate Governance practices that are in place in the SFI Group with specific reference to the Code of Corporate Governance (“the Code”) issued by the Corporate Governance Committee. In developing its Corporate Governance practices, the Board and its Management have applied itself diligently in observing the spirit and achieving the intent of the Code as opposed to just complying with what is written in the Code.

### (A) BOARD MATTERS

#### The Board’s Conduct of its Affairs

##### **Principle 1: Every company should be headed by an effective Board to lead and control the Company.**

The Board oversees the business affairs of the Group. Every director is expected to act in good faith and always in the best interests of the Company.

The principal functions of the Board are :

- Guiding the business strategies and direction of the Groups’ various businesses. This includes setting broad policies, strategies and financial objectives and monitoring the achievement of these objectives;
- Overseeing that proper risk management processes are put in place to ensure that key potential risks faced by the Group’s various businesses are properly identified and managed. This includes evaluating the adequacy of internal controls, risk management processes, financial reporting and compliance practices;
- Approving nominations to the Board of directors and appointment of key personnel to ensure effective management leadership with the highest level of integrity;
- Approving annual budgets, major funding proposals, investment and divestment proposals; and
- Providing oversight in the proper conduct of the Company’s business and assuming responsibility for corporate governance.

The Board meets regularly to review the Group’s performance, to deliberate on specific issues including major acquisitions and disposals, to approve the annual budget and to approve the release of the half-yearly and year-end financial results. The Board delegates certain specific responsibilities to board committees described in pages 31, 34 and 36. The Board also meets without the presence of Management at least once a year to review the performance of the CEO and Management and to review Board performance. A total of three board meetings was held in the year.

## Corporate Governance Report

A director would have been appointed on the strength of his calibre, experience and business networking which separately and collectively enhances his potential to contribute to the Group and its businesses. A board member contributes both at formal board meetings as well as outside of these meetings. To focus on a director's attendances at formal meetings may lead to a narrow view of a director's contributions. The Group is thus of the view that the reporting of director attendances at Board and Board committee meetings is unnecessary.

The matrix of Board members' participation in the various board committees is provided at page 31 of this Report. This reflects each board member's additional responsibilities and special focus on the respective board committees of the Company.

The Group has in place financial authorization and approval limits for, amongst others, operating and capital expenditures, investments and divestments, material contracts, bank borrowings and cheque signatory arrangements.

Changes to regulatory and accounting standards are also closely monitored by Management and, where applicable, approved by the Audit Committee. To keep pace with regulatory changes, where these changes have an important bearing on the Company's or directors' obligations, directors are briefed either during Board meetings or at specially-convened sessions.

Newly-appointed directors are given briefings on the business activities of the Group and its strategic directions.

### **Board Composition and Balance**

**Principle 2: There should be a strong and independent element on the Board, which is able to exercise objective judgment on corporate affairs independently, in particular, from Management. No individual or small Group of individuals should be allowed to dominate the Board's decision making.**

The Board currently comprises seven directors of whom six are non-executive directors, and independent of management. The executive Director is Peter Tay Buan Huat who is the President & Chief Executive Officer ("CEO") of the Group. The Chairman, George Huang Chang Yi, is an independent and non-executive Director. The remaining five directors are also independent of both the management and the principal shareholder. The independence of each director is reviewed annually by the Nominating Committee.

The Board comprises business leaders and professionals with industry and financial backgrounds. The directors as a group bring with them a broad range of expertise and experience in areas such as accounting or finance, business and management and the requisite industry knowledge. This enables Management to benefit from the diverse and external perspectives of issues brought before the Board. Together with a clear separation of the role of a non-executive Chairman and the President & CEO, this provides a professional relationship between the Board and Management with clarity of roles and proper oversight. Key information regarding the directors is given in the "Board of Directors" section on pages 20 and 21 of the annual report.

### **Chairman and Chief Executive Officer**

**Principle 3: There should be a clear division of responsibilities at the top of the Company - the working of the Board and the executive responsibility of the Company's business - which will ensure a balance of power and authority, such that no one individual represents a considerable concentration of power.**

The Chairman and President & CEO are separate persons in order to maintain effective oversight. No individual or small group of individuals dominate the Board's decision making process. In addition, the Board meets without the presence of Management at least once a year to review the performance of Management and the Board. The Chief Executive Officer and Senior Management also regularly consult with individual Board members and seek the advice of members of the Board Committees through meetings, telephone calls as well as by electronic mail.

The Chairman who is non-executive is responsible for the functioning of the Board and is free to act independently in the best interests of the company and its shareholders. The Chairman ensures that each member of the Board works well together with the Management engaging Management in constructive discussions over various matters, including strategic issues and business planning processes.

The President & CEO has full executive responsibilities over the running of the Group's businesses, the business direction and operational decisions of the Group.

## Board Membership

**Principle 4: There should be a formal and transparent process for the appointment of new directors to the Board. As a principle of good corporate governance, all directors should be required to submit themselves for re-nomination and re-election at regular intervals.**

31

The Nominating Committee reviews and assesses candidates for directorships before making recommendations to the Board. In recommending new directors to the Board, the Nominating Committee takes into consideration the skills and experience required, the current composition of the Board and the size of the Board, and strives to ensure that the Board has an appropriate balance of independent directors as well as directors with the right profile of expertise, skills, attributes and ability. The Nominating Committee considers that the number of directors is adequate.

Pursuant to our Articles of Association, one-third of our directors, including the CEO, retire and subject themselves to re-election by shareholders at every Annual General Meeting ("AGM") ("one-third rotation rule"). In addition, a newly-appointed director during the year submits himself for retirement and re-election at the AGM immediately following his appointment. Thereafter, he is subject to the one-third rotation rule.

To assist the Board in the execution of its duties, the Board has established various Board Committees, namely the Audit Committee, the Nominating Committee, the Executive Resource and Compensation Committee ("ERCC"), the Strategic Review Committee and the Budget Review Committee, each of which is empowered to make decisions on matters within its terms of reference.

## Board Composition And Committees

	Audit Committee	Strategic Review Committee	Budget Review Committee	ERCC/Nominating Committees
<b>Board Member</b>				
George Huang Chang Yi		C		C
Peter Tay Buan Huat		M	M	
Philip Tan Yuen Fah	C			M
Patrick Yeoh Khwai Hoh	M			
Roger Yeo Kok Tong		M	M	
Chow Kok Kee			C	M
John Lim Kok Min	M			
<b>Non Board Member</b>				
Kuan Kwee Jee				M

Notes : C : Chairman  
M : Member

## Corporate Governance Report

Membership in the different committees are carefully managed to ensure that there is equitable distribution of responsibilities among board members, to maximize the effectiveness of the Board and to foster active participation and contribution from board members. Diversity of experiences and appropriate skills are also considered. Minutes of Board Committee meetings are circulated to the Chairman and to Board members as appropriate.

### **Board Performance**

**Principle 5: There should be a formal assessment of the effectiveness of the Board as a whole and the contribution by each director to the effectiveness of the Board.**

We believe that Board performance is ultimately reflected in the performance of SFI. The Board should ensure compliance with applicable laws and board members should act in good faith, exercising due diligence and care and always acting in the best interests of the Company and its shareholders. In addition to these fiduciary duties, the Board is charged with two key responsibilities i.e. setting strategic directions and ensuring that the Company is ably led. The measure of a board's performance is also tested through its ability to lend support to Management especially in times of crisis and to steer SFI in the right direction, including dealing with the sensitive but important issue of CEO succession.

The financial indicators set out in the Code as guides for the evaluation of directors are in our opinion more of a measure of management's performance and hence are less applicable to directors. In any case, such financial indicators provide a snapshot of a Company's performance at a point in time, and do not fully measure the sustainable long term wealth and value creation of the Company.

The Board, through its Nominating Committee, has used its best efforts to ensure that directors appointed to our Board collectively possess the necessary background, experience and knowledge in the food industry, have competencies in business and finance and have the appropriate management skills critical to the Company's businesses. Each director with his special contributions brings to the Board an independent and objective perspective to enable balanced and well-considered decisions to be made.

A formal review of the Board's performance is undertaken collectively by the Board annually and informally on a continual basis by the Nominating Committee with inputs from Board members and the CEO. Renewals or replacement of Board members do not necessarily reflect their contributions to date, but may be driven by the need to position and shape the board in line with the needs of the Company and its business.

### **Access to Information**

**Principle 6: In order to fulfil their responsibilities, Board members should be provided with complete, adequate and timely information prior to board meetings and on an on-going basis.**

In order to ensure that the Board is able to fulfil its responsibilities, Management provides Board members with monthly management and financial reports within 10 days after each respective month-end. All analysts' reports on the Company are forwarded to the directors on an on-going basis as and when received. The Articles of Association of the Company provide for directors to convene meetings by teleconferencing or videoconferencing. Where a physical Board meeting is not possible, timely communication with members of the Board has been achieved through electronic means. Whenever necessary, Management also meet up and brief directors on the rationale and reason for recommending certain course of action before seeking the Board's approval.

As a general rule, board papers are sent to directors at least five calendar days prior to meetings in order for directors to be adequately prepared for the meeting. Senior Management staff (who are not directors) are in attendance at Board and Board committee meetings to provide additional insights into matters discussed during such meetings. Their presence enables Board members to independently assess and evaluate the individual performance of key managers beyond the CEO.

The Board has separate and independent access to the Senior Management and the Company Secretary at all times. Procedures have also been put in place for directors individually or as a group to seek independent professional advice where appropriate, at the Company's expense.

The Audit Committee meets the external and internal auditors separately at least once a year, without the presence of the CEO and other Senior Management members, in order to have free and unfettered access to unfiltered information and feedback. The Board also meets at least once a year without the presence of Management, to enable a free discussion of any sensitive matter regarding the CEO and Management.

The Company Secretary attends all Board meetings and is responsible to ensure that Board procedures are followed. It is the Company Secretary's responsibility to ensure that the Company complies with the requirements of the Companies Act. Together with the Management, the Company Secretary is responsible for compliance with all rules and regulations which are applicable to the Company.

## (B) REMUNERATION MATTERS

### Procedures for Developing Remuneration Policies

**Principle 7: There should be a formal and transparent procedure for fixing the remuneration packages of individual directors. No director should be involved in deciding his own remuneration.**

We believe that a framework of remuneration for the Board and key executives should not be taken in isolation. It should be linked to the development of the strength of the management bench to ensure that there is a continual development of talent and renewal of strong and sound leadership for the continued success of the Group. For this reason, the ERCC oversees the compensation package for Management and key executives as well as directors, and the members of the ERCC and the Nominating Committee are the same as laid out under Principle 4.

The ERCC performs the role of the Remuneration Committee. All the members of the ERCC are independent of Management. From time to time, the ERCC co-opts an outside member into the ERCC to provide a global perspective of talent management and remuneration practices.

The ERCC conducts, on an annual basis, a succession planning review of the CEO and selected key positions in the Company. Potential internal and external candidates for succession are reviewed for immediate, medium term and longer-term needs.

The ERCC reviews the remuneration of the non-executive directors, the CEO who is the only executive director on the Board, and senior executives, as well as sets major human resource management and compensation policies for the rest of the employees in SFI.

The ERCC is chaired by George Huang Chang Yi, an independent and non-executive Chairman of the Company, and comprises two other independent non-executive directors namely Philip Tan Yuen Fah and Chow Kok Kee and one representative from the parent company, Kuan Kwee Jee who is its Director, Executive Resource. There are no management members on the ERCC.

The ERCC has access to expert professional advice on human resource matters whenever there is a need to consult externally. In its deliberations, the ERCC takes into consideration industry practices and norms in compensation. The CEO is not present during the discussions relating to his own compensation, terms and conditions of service, and the review of his performance. However, the CEO is in attendance when the ERCC discusses policies and compensation of his senior team and key staff, as well as major compensation and incentive policies such as share options, stock purchase schemes, framework for bonus, staff salary and other incentive schemes.

## Corporate Governance Report

The ERCC's scope of responsibilities include:

- Establishing compensation policies for key executives and directors
- Approving salary reviews, bonus and performance incentives for key executives
- Approving share-based incentives including stock options for executives and staff
- Approving key appointments and reviewing succession plans for the CEO and other key positions
- Overseeing the development of key management talent

34

The ERCC met three times in 2003 and meets among its members without the presence of Management, at least once a year.

### Level and Mix of Remuneration

**Principle 8: The level of remuneration should be appropriate to attract, retain and motivate the directors needed to run the Company successfully but companies should avoid paying more for this purpose. A proportion of the remuneration, especially that of executive directors, should be linked to performance.**

The President & CEO as executive director does not receive director's fees. He is a lead member of Management. His compensation consists of his salary, allowances, bonuses, options and performance share awards conditional upon his meeting certain stretched performance targets. The details of his compensation package are found on page 93 of the Annual Report.

Non-executive Directors have remuneration packages which consist of a directors' fee component pursuant to the Company's Directors' Fee policy, an attendance fee component and a share option component pursuant to the Company's Share Option Plan. The Directors' Fee policy is based on a scale of fees divided into basic retainer fees as a director and additional fees for serving on board committees and fees for attendances. Directors' fees for non-executive directors are subject to the approval of shareholders at AGMs.

The basis of allocation of the number of share options for Directors takes into account a director's contributions and additional responsibilities at board committees and where appropriate, other board appointments at the subsidiary level. The report on Directors' Remuneration is found on page 93 of the Annual Report.

### Disclosure on Remuneration

**Principle 9: Each Company should provide clear disclosure of its remuneration policy, level and mix of remuneration, and the procedure for setting remuneration, in the Company's annual report.**

The Company adopts a remuneration policy for staff comprising a fixed component and a variable component. The fixed component is in the form of a base salary which reflects market worth. The variable component comprises both short-term incentive and longer-term incentives. For managers and executives, the short-term variable component is in the form of a variable bonus and is linked to the performance of the Company and the individual in the achievement of key Performance Indicators or Performance Targets capped at 2.0 or 2.5 months respectively. This is to reward managers and executives for effort in implementing and developing key attributes identified as important for the Company for the longer term e.g. putting in place systems or investing in people development.

The longer-term variable component is in the form of Economic Value Added (“EVA”)–based Incentive and Equity-based Incentives. They are to reward staff for sustainable value creation. By its stringent criterion, an EVA bonus is only declared if the Company earns more than its Cost of Capital in the year or at the very least, the Company is moving in that direction. The ERCC will evaluate the extent to which the key Performance Indicators/Performance Targets have been achieved and the EVA generated for the year and approve the bonus pool for distribution to staff. The actual allocation is based on the performance of the individual using a relative ranking exercise for each executive/management grade across the different divisions in the Company. Only one-third of the EVA bonus of the current year and of the EVA Bonus Bank (earned from past years) of each individual executive / manager is paid out. The other two-thirds are held in the EVA Bonus Bank for payment in subsequent years to ensure sustainable value creation by the Company.

Another element of the longer term variable component is the grant of performance and restricted shares (for Senior Management only) and share options to staff under the Company’s Share Option Plan. The allocation of share options to staff is based on job grade, performance and potential and vest equally over a four-year period. Length of service is not a criterion as all confirmed staff are eligible for award of options which vest over four years. For the exercise this year, 94.5 per cent of local employees were granted options. This element seeks to align the longer term interests of staff with that of shareholders.

The performance shares are granted to a very select number of key employees (including the CEO) of the Group (both in Singapore and overseas). The criteria for award after three years are on Total Shareholders’ Return (above a benchmark index), Capital Productivity (EVA Spread) and Labour Productivity (Value Added per Employment Costs).

Rather than setting out the names of the top five key executives who are not also directors of the Company, we have shown a Group-wide cross-section of executive remuneration by number of employees earning \$100,000 upwards in bands of \$250,000 with break-down of compensation into fixed and variable components below. This should give a macro view of the remuneration pattern in the Group, while maintaining confidentiality of staff remuneration matters.

There are no employees in the Group who are immediate family members of a director or the CEO.

Compensation bands (\$\$)	Number of employees (Note 1)	Total Basic Compensation (Note 2)	Total Variable Compensation (Note 3)	Total Remuneration*
100,000 - 249,999	34	4,129,386	967,029	5,096,415
250,000 - 499,999	14	3,190,431	1,138,425	4,328,856
500,000 and above	2	1,086,014	697,523	1,783,537
<b>Total</b>	<b>50</b>	<b>8,405,831</b>	<b>2,802,977</b>	<b>11,208,808</b>

\* Notes:

1. Including employees in local and overseas subsidiaries
2. Inclusive salaries, AWS, related CPF and other statutory contributions, allowances and fringe-benefits
3. Bonuses and related CPF and other statutory contributions
4. UK salaries include those whose total remuneration is GBP50,000 and above and are converted to Singapore dollars at the average exchange rate of 2.8478
5. Australian salaries are converted to Singapore dollars at the average exchange rate of 1.1425

# Corporate Governance Report

## (C) ACCOUNTABILITY AND AUDIT

### Accountability

#### **Principle 10: The Board is accountable to the shareholders while the Management is accountable to the Board.**

Both the Management and the Board recognizes the importance of providing the Board with all relevant information on an accurate and timely basis in order that the Board may effectively discharge its duties. On a monthly basis, Board members are provided with business and financial reports comparing actual performance with budget and with prior year comparisons with highlights on key business indicators and any significant business developments. In addition, the Chairman, CEO and other Senior Management staff regularly communicate with Board members through electronic mails and phone calls with appropriate update on Company developments. These reports provide relevant, timely, reliable and up-to-date financial and other information for effective monitoring and decision making.

As part of the Group's commitment to regular communication with our shareholders and to ensure a high level of transparency, the Group adopted quarterly reporting since the Company's listing on the Singapore Exchange at the end of 1999.

### Audit Committee

#### **Principle 11: The Board should establish an Audit Committee ("AC") with written terms of reference which clearly set out its authority and duties**

Our internal policy requires the Audit Committee ("AC") to have at least three members (preferably four), all of whom shall be non-executive and independent of both management and principal shareholder. In addition, Chairman George Huang resigned as an Audit Committee member soon after assuming the Chairmanship of the Group.

The AC currently consists of three directors all of whom are independent and of which at least two members have the appropriate accounting or related financial management expertise and experience. The Chairman of the AC, Philip Tan Yuen Fah, has many years of experience in managerial positions in the banking and food industries. The other members are Patrick Yeoh Khwai Hoh and John Lim Kok Min. The AC performs the following main functions:

- Reviews the quarterly, half-yearly and annual financial statements and recommends to the Board for approval;
- Recommends to the Board, the appointment and re-appointment of the external auditors and their fees for shareholders' approval, after evaluating their cost effectiveness, independence and objectivity and the nature and extent of non-audit services provided by them;
- Reviews the annual plans of both internal and external auditors including appraising the quality of their work and the assistance provided to them by Management; and
- Reviews and approves Interested Person Transactions under the Shareholders Mandate renewable annually.

The AC meets with the External and the Internal Auditors, without the presence of management, at least once a year. During the year, the AC met four times.

The AC constantly bears in mind the need to maintain a balance between the independence and objectivity of the external auditors and the desire to have work that may be best carried out by the External Auditors based on value for money considerations. During the year, there was non-audit work amounting to \$180,000 carried out by KPMG Newcastle and Leeds in the United Kingdom. The AC is of the view that the level of non-audit work does not in any way compromise the independence and objectivity of the external auditors.

## **Internal Controls and Internal Audit**

**Principle 12: The Board should ensure that the Management maintains a sound system of internal controls to safeguard the shareholders' investments and the Company's assets.**

**Principle 13: The Company should establish an internal audit function that is independent of the activities it audits.**

The Board has ultimate responsibility for maintaining a sound system of internal controls to safeguard shareholders' investment and the Group's assets. The systems are intended to provide reasonable but not absolute assurance against material misstatements or loss, and include the safeguarding of assets, the maintenance of proper accounting records, the reliability of financial information, compliance with appropriate legislation, regulation and best practice, and the identification and containment of business risks.

The Audit Committee's responsibility in overseeing that the Company's risk management system and internal controls are adequate is complemented by the work of the outsourced Internal Auditor, PricewaterhouseCoopers ("PwC").

The Group's internal audit adopts a risk-based methodology which consists of a formal process for identifying and evaluating significant risks faced by the Group, including evaluating controls put in place to ensure that all activities operate effectively, efficiently and do not expose the Group to unacceptable risks. In reviewing the Group's risks, a risk management methodology called ORCA which stands for Objective, Risk, Control and Alignment is used to help management at each business unit to review its key risks and the adequacy of the counter-measures. The process is reviewed by the Audit Committee on a continual and regular basis.

The Internal Auditor plans its internal audit work in consultation with, but independent of Management, and its yearly plan is submitted to the Audit Committee for approval at the beginning of each year. The Internal Auditor reports to the AC quarterly regarding its findings. The Audit Committee also meets with the internal auditor at least once during the year without the presence of management.

Similarly, the non-executive Chairman and other non-executive directors on the respective boards of our overseas subsidiaries meet with the internal and external auditors without the presence of local management at least once a year to satisfy themselves of the assistance given by Management to internal and external auditors and for the auditors to raise any significant findings.

The Internal Auditor, PwC is a corporate member of the Singapore branch of the Institute of Internal Auditors Inc. ("IIA"), which has its headquarters in the USA. The Internal Auditor is guided by the PricewaterhouseCoopers Global Internal Audit Services Outsourcing Engagement Framework ("Framework"). The standards developed in the Framework are consistent with the Standards for the Professional Practice of Internal Auditing developed by the IIA. The Framework covers requirements in respect of the following:

- Independence
- Professional proficiency
- Scope of Work
- Performance of Audit Work
- Management of the Internal Auditing Department.

## Corporate Governance Report

The Internal Auditor's primary line of reporting is to the chairman of the AC.

The Audit Committee has the express power to conduct or authorize investigations into any matters within its terms of reference. Minutes of the Audit Committee meetings are submitted to the Board for information. During the year, the Audit Committee, on behalf of the board, has reviewed the effectiveness of the various systems put in place by Management and is satisfied that there are adequate internal controls in the Company.

### (D) COMMUNICATION WITH SHAREHOLDERS AND GREATER SHAREHOLDER PARTICIPATION

**Principle 14: Companies should engage in regular, effective and fair communication with shareholders.**

**Principle 15: Companies should encourage greater shareholder participation at AGMs, and allow shareholders the opportunity to communicate their views on various matters affecting the Company.**

SFI's Management and the Board believe in regular and timely communication with shareholders as part of the Group's effort to help our shareholders understand our business better.

Any information considered to be price-sensitive is first publicly released, either before the Company meets with any group of investors or analysts, or simultaneously with such meetings. Our Corporate Communications department together with the CEO and CFO manages investor relations and has a series of events planned each year to brief the media, analysts and any interested shareholder on the Group's performance. The team communicates with investors on a regular basis and attends to any queries promptly. Roadshows are also organized to keep investors updated.

The Company has adopted quarterly results reporting since its listing in 1999. During the release of its respective quarterly, half-yearly and year-end results, an announcement is first released through MASNET onto the SGX website. Thereafter, a briefing by Management is held jointly for the media and analysts. The briefing materials and press releases are also published through MASNET. In addition, the Company's MASNET announcements, briefing materials to analysts and press releases are all made available on the Company's web-site at [www.sfi.com.sg](http://www.sfi.com.sg). The Company's annual report is also available on the website.

Through its effort to provide comprehensive and balanced reporting, the Company has been awarded "The Most Transparent Company Award" in the Manufacturing category in 2001, 2002 and 2003 consecutively. This public recognition by the Securities Investors Association of Singapore bears testimony to the Group's continuous effort to provide relevant and comprehensive information in order to achieve greater transparency and understanding amongst investors about the Group's businesses.

We support the Code's principle to encourage shareholder participation. Voting in absentia and by electronic mail may only be possible following careful study to ensure that integrity of the information and authentication of the identity of shareholders through the web are not compromised and following legislative changes being put in place to recognise electronic voting.