

INTRODUCTION

The Board and Management of the Company are committed to maintaining high standards of corporate conduct and place importance on its Corporate Governance practices and systems, to ensure transparency, accountability and protection of shareholder interests.

This Report sets out the Corporate Governance practices that are in place in the Group with specific reference to the Code of Corporate Governance 2005 ("the Code"). In developing and implementing its Corporate Governance practices, the Company has applied itself in observing the spirit and achieving the intent of the Code. The Company is generally in compliance with 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 is collectively responsible for the success of the company. The Board works with Management to achieve this and the Management remains accountable to the Board.

The principal functions of the Board are to:

- Guide 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
- Review the performance of management in meeting agreed goals and objectives and monitor the reporting of performance
- Oversee that proper risk management processes are put in place to ensure that key risks faced by the Group's various businesses are properly identified and managed. This includes evaluating the adequacy of internal controls, risk management processes, reporting and compliance practices
- Approve nominations to the Board of directors and appointment of key executives to ensure effective management;
- Approve annual budgets, major funding proposals, investment and divestment proposals
- Provide oversight in the proper conduct of the Company's business and assume 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 financial results to the Singapore Exchange Securities Trading Limited ("SGX-ST"). 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. The Articles of Association of the Company provide for directors to convene meetings by teleconferencing or videoconferencing. A total of six board meetings were held in the year.

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 operating the Group's various bank accounts. Board approval is required for these matters if they exceed certain limits whilst authority for transactions below these limits is delegated to management for operational efficiency.

Newly-appointed directors are issued with a formal letter by the Company Secretary setting out the directors' duties and advising them of their disclosure obligations under the Companies Act, and SGX-ST listing rules. Orientation programmes for new directors are also conducted to familiarise them with the business activities of the Group, its strategic plans and direction and corporate governance practices.

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") and the Executive Committee. Each of these committees is empowered to make decisions on matters within its terms of reference. Minutes of Board Committee meetings are circulated to the Board to inform Board members of Board Committee decisions.

Board Committee memberships and attendance at Board and Board Committee meetings during the financial year are set out as follows:

Name	Board Meeting		Executive Committee		Audit Committee		ERCC		Nominating Committee	
	Appointment Held	Number of Meetings Attended	Appointment Held	Number of Meetings Attended	Appointment Held	Number of Meetings Attended	Appointment Held	Number of Meetings Attended	Appointment Held	Number of Meetings Attended
Tan Yam Pin	Chairman	6	Chairman	3	Member	4	Chairman	2	Chairman	1
Roger Yeo Kok Tong	Member	6	–	–	–	–	–	–	–	–
Philip Tan Yuen Fah	Member	6	–	–	Chairman	4	Member	2	Member	1
John Lim Kok Min	Member	5	Member	3	Member	3	–	–	–	–
Mary Yeo Chor Gek	Member	5	Member	2	–	–	–	–	–	–
Margaret Lui-Chan Ann Soo	Member	5	Member	2	–	–	Member	2	Member	1
Lok Vi Ming ¹	Member	2	Member	2	–	–	–	–	–	–

¹ Appointed as Director on 2 May 2007.

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 comprises seven directors of whom only the Chief Executive Officer ("CEO"), Roger Yeo Kok Tong is an executive director. All the rest of the directors are non-executive and independent except for Margaret Lui-Chan Ann Soo, who is a nominee of the principal shareholder. The independence of each director is reviewed annually by the Nominating Committee.

The size and composition of the Board are reviewed from time to time by the Nominating Committee to ensure that the Board has the appropriate mix of expertise and experience and collectively possess the relevant and necessary skills-set and core competencies for effective decision-making. The Nominating Committee also strives to ensure that the size of the Board is conducive to discussions and decision-making.

The Board comprises business leaders and professionals with relevant industry and financial backgrounds. The directors as a group bring with them a broad range of expertise and experience in areas such as accounting, finance, business and management and the requisite industry knowledge. The profile of each director is set out on pages 6 to 7.

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 CEO are separate persons in order to maintain effective oversight. No individual or small group of individuals dominate the Board's decision making process.

The Chairman, who is non-executive and independent, is responsible for the proper functioning of the Board and is free to act independently in the best interests of the Company and its shareholders.

The CEO on the other hand, 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.

The Nominating Committee is chaired by Tan Yam Pin, who is independent and non-executive, and comprises two other non-executive directors namely Philip Tan Yuen Fah, who is independent, and Margaret Lui-Chan Ann Soo.

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 of the potential new member to complement the existing strengths of the Board, and strives to ensure that the Board has an appropriate balance of directors with the right expertise, skills, attributes and ability to carry out the Board's responsibilities effectively. The Nominating Committee considers that the current number of directors is adequate.

Membership in the different committees is carefully managed to ensure that there is an equitable distribution of responsibilities among Board members to maximise the effectiveness of the Board and to foster active participation and contribution from Board members.

In accordance with the Company's Articles, no less than one-third of the directors (including the CEO) for the time being, are required to retire by rotation and subject themselves to re-election by shareholders at every Annual General Meeting ("AGM"). A newly-appointed director during the year also submits himself for re-election at the AGM immediately following his appointment.

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.

The Company has in place processes to assess the performance and effectiveness of the Board as a whole and the contribution by each member to the effectiveness of the Board. The performance criteria for Board evaluation includes financial and non-financial indicators such as an evaluation of the size and composition of the Board, Board processes, collective and individual contributions of each Board member to strategy, planning and investment decisions, risk management and internal controls. The performance of the Board in discharging its principal functions, communication with management and standards of conduct of the individual members, are also assessed.

The Board evaluation exercise is conducted annually. As part of the exercise, Board members complete appraisal forms, the results of which are discussed with the Chairman.

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.

The Board is supplied with relevant information and comprehensive analysis by management pertaining to matters to be brought before the Board for discussion and decision. Management also ensures that the Board receives regular reports on the Group's financial performance and operations.

The Board has separate and independent access to management and the Company Secretary at all times. The Company Secretary attends to all corporate secretarial and compliance matters and also attends all Board meetings. The Company Secretary is responsible for ensuring that legal and regulatory requirements as well as Board procedures are complied with. To assist Board members in fulfilling their responsibilities, directors can seek independent professional advice, where appropriate, at the expense of 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.

The ERCC, which has the same composition of members as the Nominating Committee, has the responsibilities of overseeing the compensation package for key executives and directors, and setting major human resource management and compensation policies for the rest of the employees in SFI. Directors' fees are endorsed by the Board and subject to Shareholders' approval at AGMs. No director is involved in deciding his own remuneration.

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 management 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.

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 employees
- Approving key appointments and reviewing succession plans for the CEO and other key positions
- Overseeing the development of key management talent

The ERCC met twice in 2007 and meets 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 significant proportion of executive directors' remuneration should be structured so as to link rewards to corporate and individual performance.

Non-executive Directors have remuneration packages which comprises a basic retainer fee, additional fees for appointment to Board Committees, attendance fees and share options granted pursuant to the Company's Share Option Plan. Directors' fees for non-executive directors are subject to the approval of shareholders at AGMs.

The CEO as executive director does not receive director's fees. He is the lead member of Management. His compensation would comprise his salary, allowances, bonuses, share options and performance share awards which are conditional upon his meeting certain stretched performance targets. Details of his compensation package are found on page 36 of the Annual Report.

The basis of allocation of the number of share options for Directors takes into account each director's contributions and additional responsibilities at board committees. The report on Directors' remuneration is found on page 36 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. It should provide disclosure in relation to its remuneration policies to enable investors to understand the link between remuneration paid to directors and key executives, and performance.

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 and job responsibilities. The variable component comprises both short-term incentives and longer-term incentives. The variable component is in the form of a bonus and is linked to the performance of the Company, computed based on Economic Value Added ("EVA"), and on individual staff performance.

The longer term variable component consists of grants of performance shares (for senior management) and share options to staff under the Company's Share Option Plan. This element seeks to align the longer term interests of employees with that of shareholders. The allocation of share options to staff is based on job grade, performance and potential and the share options vest equally over a four-year period. During the year, 85.7% of Singapore-based employees were granted options. Share options were also granted to employees of overseas subsidiaries based on the relative contribution of each subsidiary to overall Group results.

Performance shares are granted to the CEO and a very select number of key employees of both Singapore and overseas operations. Performance Share awards are based on achieving threshold targets for (i) relative total shareholder return performance against Morgan Stanley Capital International All Countries Asia Pacific excluding Japan Industrial Index (ii) EVA spread and (iii) earnings per share growth.

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

The remuneration of the top five key executives who are not directors of the company are expressed in bands of \$250,000 below.

Compensation bands (\$)	Number of Employees	Fixed Remuneration (\$)	Variable Remuneration (\$)	Value of Options (\$)	Total Remuneration (\$)
250,000 - 499,999	2	605,250	347,707	22,495	975,452
500,000 and above	3	1,469,256	961,389	48,391	2,479,036
Total	5	2,074,506	1,309,096	70,886	3,454,488

Notes :

- Includes (i) related CPF, statutory and pension contribution, allowances and fringe-benefits (ii) the fair values of share options and any performance shares granted/awarded during the year.
- The remunerations of UK-based executives have been converted at GBP 1 : SGD 3.0198

(C) ACCOUNTABILITY AND AUDIT**ACCOUNTABILITY****Principle 10:**

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

The Board has overall responsibility to shareholders to ensure that the Group is well managed and guided by its strategic objectives. In presenting the Group's annual and quarterly financial statements to shareholders, it is the aim of the Board to provide shareholders with a balanced and understandable assessment of the Group's performance, position and prospects. Management provides the Board with management accounts and other financial reports on a monthly basis, together with analysts' reports on the Company as and when these are received.

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.

The Audit Committee ("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 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
- Reviews the annual plans of both internal and external auditors including appraising the quality of their work
- Reviews and approves Interested Person Transactions ("IPT") under the Shareholders Mandate including reviewing the method for determining IPT prices for purposes of renewal of the Shareholders' Mandate.

The AC has the express power to conduct or authorise investigations into any matter within its Terms of Reference, and has the authority to engage legal or other professional services if necessary to discharge its function properly.

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

The AC bears in mind the need to maintain the independence and objectivity of the external auditors. During the year, non-audit work carried out by KPMG amounted to an equivalent of \$87,000 and the AC is satisfied that their independence has not been compromised.

Pursuant to the requirements of the SGX, an audit partner may only be in charge of a maximum of five consecutive audits, and may then return after two years. The current KPMG audit partner for the company was appointed with effect from the current financial year. The Audit Committee has recommended to the Board that KPMG be nominated for re-appointment as auditors at the next AGM.

The Company has in place whistle-blowing policies and arrangements by which staff may, in confidence, raise concerns about possible corporate improprieties in matters of financial reporting or other matters. To ensure independent investigation of such matters and for appropriate follow up action, the Company's procedures provide for all whistle-blowing reports to be directed to the Head of Human Resource, the CEO, the Chairman of the AC or the Chairman of the Board, where appropriate. The AC and the Chairman of the Board will be informed immediately of all whistle-blowing reports received. Details of the whistle-blowing policies and arrangements are posted in the Company's intranet for staff's easy reference.

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.

The Group has in place a system of key internal controls including the following:

- documented risk management policies and systems
- policies and approval limits for key financial and operational matters, and the rules relating to the delegation of authorities
- documentation of key processes and procedures and establishment of minimum acceptable control standards for key functions
- segregation of incompatible functions
- proper custody and safeguarding of assets including adequate insurance coverage
- maintenance of proper accounting records
- independent Internal Audit functions

Operational risk management measures implemented by the Group include the implementation of proper food safety and hygiene standards, for example, the Hazard Analysis and Critical Control Point system, adhering to industry practices for Fire Prevention and Safety Standards and others.

Details of the Group's financial risks management measures are outlined in Note 28 to the Financial Statements.

Based on the internal controls established by the Group, the reviews conducted by the internal and external auditors, and continuing reviews carried out by the AC, the Board is of the opinion that the Group has in place a system of adequate internal controls.

Principle 13:

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

The Audit Committee's responsibility in overseeing that the Company's risk management system and internal controls are adequate, is complemented by the Group's Internal Auditor, the functions of which are outsourced to Ernst & Young.

The Internal Auditor plans its internal audit work in consultation with, but independent of Management, and its yearly plan is submitted to the AC 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. The Internal Auditor's primary line of reporting is to the Chairman of the AC, although it also reports administratively to the CEO.

The Internal Auditor is a corporate member of the Singapore branch of the Institute of Internal Auditors Inc..

(D) COMMUNICATION WITH SHAREHOLDERS AND GREATER SHAREHOLDER PARTICIPATION

Principle 14:

Companies should engage in regular, effective and fair communication with shareholders.

SFI is committed to providing its investors with a high level of transparency by engaging in regular, effective and fair communication with shareholders.

The Company announces its results on a quarterly basis. Joint analysts and media briefings are held following these results announcements at least twice a year. The briefing materials, press releases and the Company's Annual Reports are available on the Company's website at www.sfi.com.sg, to keep investors updated of the Company's latest developments.

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 encourages shareholders to participate actively in general meetings. These events provide shareholders with the opportunity to communicate their views on matters affecting the Company.

Board members and senior management are present and available to address shareholders' questions at general meetings. The external auditors are also present to address shareholders' queries relating to the conduct of audit and the preparation and content of the Auditor's Report.

1. DIRECTORS' REMUNERATION

Summary of Remuneration for year ended 31 December 2007 (Company)

Name of Director	Salary ¹	Bonus ²	Directors' Fees	Total	No. of performance shares granted in 2007 ³	No. of unissued shares under options granted in 2007 ⁴	Exercise period
	\$	\$	\$	\$			
Tan Yam Pin	–	–	172,000	172,000	–	130,000	31/07/2008 to 30/07/2012
Roger Yeo Kok Tong	440,308	44,025	–	484,333	Up to 600,000	400,000	31/07/2008 to 30/07/2017
Philip Tan Yuen Fah	–	–	84,000	84,000	–	80,000	31/07/2008 to 30/07/2012
John Lim Kok Min	–	–	72,000	72,000	–	40,000	31/07/2008 to 30/07/2012
Mary Yeo Chor Gek	–	–	48,000	48,000	–	40,000	31/07/2008 to 30/07/2012
Margaret Lui-Chan Ann Soo	–	–	61,000	61,000	–	40,000	31/07/2008 to 30/07/2012
Lok Vi Ming ⁵	–	–	30,740	30,740	–	20,000	31/07/2008 to 30/07/2012
	440,308	44,025	467,740	952,073	Up to 600,000	750,000	

1 : The salary amount shown is inclusive of allowances and CPF.

2 : The bonus amount shown is inclusive of CPF.

3 : Performance shares granted during the year are conditional upon performance achievement for the period 2007 to 2009.

4 : Share Options granted during the year were at exercise price of \$0.886 per share.

5 : Appointed on 2 May 2007.

2. INTERESTED PERSON TRANSACTIONS

Interested Person Transactions carried out during the financial year, pursuant to the Shareholders' Mandate and as defined under Chapter 9 of the Listing Manual of the Singapore Exchange Securities Trading Limited (the "Listing Manual") are as follows:

	Aggregate value of all transactions conducted under a shareholders' mandate pursuant to Rule 920 of the SGX Listing Manual (excluding transactions less than S\$100,000)	
	2007 \$'000	2006 \$'000
Transactions for the Purchase of Goods and Services		
Power Seraya Limited and its Associates	413	–
Tuas Power Limited and its Associates	–	314
Total Interested Person Transactions	413	314

During the financial year, there were no borrowings, foreign exchange, swap and options transactions entered into or with and no subscription of debt securities issued by any interested person (as defined in Chapter 9 of the Listing Manual).

3. DEALINGS IN SECURITIES

The Company has procedures in place on dealing with SFI shares. Directors and key senior executives of the Group are prohibited from trading in SFI shares during the period commencing two weeks prior to the announcement of the Company's quarterly results and the period commencing one month prior to the announcement of the Company's half-year and full-year results. Directors and key senior executives are also expected to observe insider trading laws at all times.