



### **Acting with integrity**

Through a formal and open structure for decision-making and review, we are committed to fostering a culture that values integrity among its core values and promotes investor confidence.

# Applying structure and transparency to the corporate framework

This Corporate Governance section describes ST Engineering's corporate governance processes and activities in 2005 with specific references to the Principles of the Singapore Corporate Governance Code 2005 (Code).

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

The Board comprises 11 directors and an alternate director. The Chairman of the Board is Mr Peter Seah, a non executive director. He was the President and Chief Executive Officer (CEO) of parent company Singapore Technologies Pte Ltd (STPL) until it restructured and ceased operations on 31 December 2004. Mr Seah is currently a member of the Temasek Advisory Panel of Temasek Holdings (Private) Limited. The Board's mission is and remains the creation of long term value for shareholders. The Board provides leadership and guidance to management on matters of corporate strategy, business direction, acquisitions and divestments, risk policy and the implementation of corporate objectives. The Board is supported in its tasks by board committees that have been established to focus on the key areas of corporate governance oversight.

There are matters that the Board has reserved for its own decision-making. These include key investments above a certain

*The Board's mission is and remains the creation of long term value for shareholders.*

dollar limit, shareholder matters, policies relating to corporate governance enhancement, approval of budgets, board changes and appointments of the CEO and the composition of board committees. Board members receive monthly consolidated management reports on the financial performance of each business sector, including capital commitments and significant operational highlights.

Directors are free to debate openly the merits or demerits of each proposal that is put to the Board for consideration and to challenge the views of other directors. The decision-making process is an objective one, with the vote of each Director taken around the table. In accordance with the Company's Articles of Association, a majority of votes of the Directors is required for a proposal to be approved, with the Chairman having a second or casting vote.

The number of Board and Board Committee meetings held during the year are tabulated below:

**Board and Board Committee Meetings During 2005\***

Type of Meeting	
Board	7
Audit Committee	4
Budget and Finance Committee	3
Business Investment and Divestment Committee	3
Executive Resource and Compensation Committee	3
Nominating Committee	1
Research, Development and Technology Committee	3
Risk Review Committee	5
Senior Human Resource Committee	1

\* Minutes of the Board Committee meetings are made available to Board members.

The ST Engineering Board and Board Committee meetings have an average 88% attendance rate. The Group believes that the vast and diverse experience of its Directors has enabled Board members to contribute beyond formal attendance at official meetings. Outside of Board meetings, a Board member may engage in ad hoc discussions on specific issues or prior discussions of the agenda with management.

**Independence of the Board (Principles 2 and 3)**

As a non executive director, Mr Seah is free from any relationship with the executive management of the Company that could materially interfere with the exercise of his independent judgment. However, Mr Seah’s position with STPL until 31 December 2004 precludes him from being regarded as an independent director for the time being in the context of Guideline 2.1 of the Code which states that a director is deemed not independent if he is “employed by the company or any of its related companies for the current or any of the past three financial years”.

The President and CEO is Mr Tan Pheng Hock, who is an executive director. Save for Mr Tan Pheng Hock, the remaining 10 directors are non executive directors.

According to the Code guidelines, an independent director is one who has no relationship with the Company, its related companies or its officers that could interfere or be reasonably perceived to interfere with the exercise of the director’s independent business judgment. Relationship tests aside, the Board is committed to having as an independent director one who can constructively assist the Board in its deliberations by exercising objective judgment while always acting in the best interests of the Company.

The Nominating Committee has reviewed the provisions in the Code and has concluded that five directors are independent, representing

more than one-third of the Board (Guideline 2.1). The independent directors are Mr Koh Beng Seng, Mr Venkatachalam Krishnakumar, Dr Philip Pillai, Mr Winston Tan and Mr Lucien Wong. Mr Lim Chin Beng, who was an independent director, stepped down on 22 September 2005 to pursue other commitments.

The Board held a total of seven meetings during the year, two of which, in accordance with its planning cycle, were for the approval of the FY2004 results and the release of half year 2005 results. Five special Board meetings were held to specifically consider the business growth strategies, investment projects and corporate governance policy of the Group.

#### **Board Committees (Principles 4, 7 and 11)**

Supporting the Board are the following Board Committees:

- Audit Committee
- Budget and Finance Committee
- Business Investment and Divestment Committee
- Executive Resource and Compensation Committee
- Nominating Committee
- Research, Development and Technology Committee
- Risk Review Committee
- Senior Human Resource Committee
- Tenders Committee

The composition of the Board Committees is found on page 41.

#### **Board Selection, Training and Evaluation of Performance (Principles 4 and 5)**

The Nominating Committee (NC) is responsible for reviewing the composition of the Board regularly and identifying and selecting suitable candidates for the Board. The Committee also reviews the retirement and re-election of directors.

*Directors are free to debate openly the merits or demerits of each proposal that is put to the Board for consideration and to challenge the views of other directors.*

Mr Peter Seah was Chairman of the NC until 14 September 2005 when he stepped down as Chairman in accordance with Guideline 4.1. Although Mr Seah is not regarded as an independent director for the reasons mentioned under Guideline 2.1(a), he remains a member of the Committee. Dr Philip Pillai, a member of the NC since 4 December 2002, took over as Chairman from Mr Seah on 14 September 2005. Mr Venkatachalam Krishnakumar remains a member. Both Dr Pillai and Mr Krishnakumar are independent non-executive directors.

*Reporting on corporate governance is not just about ticking a list of compliances. It is about how a company is managed and what drives its vision.*

The NC is charged with the responsibility of ensuring that the Company's Board and its subsidiaries are comprised of individuals who are able to discharge their responsibilities as directors. The NC identifies suitable candidates for appointment to the boards of the Group, in particular, candidates who would add value to management through their contributions in the relevant strategic business areas and whose appointment would result in the constitution of strong and diverse boards.

The NC has the same members as the Executive Resource and Compensation Committee (ERCC). This is because both committees share similar objectives to search for talent and expertise that would enrich the Board and strengthen management.

During the year, the NC met once to review and affirm the independence of the Group's independent directors and review the composition of the Board and the profile of Board members in relation to the needs of ST Engineering. The NC is also responsible for reviewing annually the directors who are due for retirement and re-election.

At each Annual General Meeting (AGM), one third of the directors with the longest term in office are required to retire and submit themselves for re-election. Mr Peter Seah, Professor Lui Pao Chuen, Mr Quek Poh Huat and Mr Winston Tan will retire. The NC has reviewed their contributions and recommends their re-election at the Company's forthcoming AGM.

ST Engineering subscribes to the principle that all directors including the President and CEO shall retire and submit themselves for re-election at regular intervals and at least once every three years. This is one of the principles in the Code (Guideline 4.2). ST Engineering is an early adopter of this principle. It amended its Articles of Association in 2002 to require all directors, including the President and CEO of the Company, to retire by rotation.

On appointment, new directors are given a briefing by the President and CEO on the strategies of the Company and its key subsidiaries. From time to time, seminars on updates to relevant laws and corporate governance are organised for the benefit of the directors and management. As an example, a forum was organised on the Companies (Amendment) Act 2005 with external speakers from an established law firm and auditing firm to update Directors, management and key corporate executives in the Group. The forum also covered the revised Code issued in July 2005.

The Board consists of members with backgrounds in finance, banking, technology, law and executive management skills. Each director brings to the Board an independent and objective perspective to enable balanced and well considered decisions to be made.

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

In accordance with this principle, the Board receives monthly reports providing updates on key operational activities and cur-

rent financial analysis. The Board also has unrestricted access to the President and CEO, the Chief Financial Officer, management and the Company Secretary as well as the internal and external auditors. The Board can also seek independent professional advice if deemed necessary.

### Procedures for Developing Remuneration Policies

#### Level and Mix of Remuneration

#### Disclosure on Remuneration (Principles 7, 8 and 9)

The ERCC performs the role of a remuneration committee.

The ERCC comprises Mr Peter Seah as Chairman, Dr Philip Pillai and Mr Venkatachalam Krishnakumar. All members of the ERCC have held senior positions in various companies and are experienced in the sphere of executive remuneration.

All of the ERCC members are non-executive directors. Apart from Mr Peter Seah who is independent of management, the other members of the ERCC are independent directors.

The ERCC has access to professional advice from appropriate external advisors as and when it deems necessary. The ERCC may meet with these external advisors without management being present. All decisions at any meeting of the ERCC shall be decided by a majority of votes of the ERCC members present and voting (the decision of the ERCC shall at all times exclude the vote, approval or recom-

mendation of any member who has a conflict of interest in the subject matter under consideration).

The ERCC has been authorised by the Board to carry out the following key duties and responsibilities:

- Review and establish executive remuneration policy;
- Approve the remuneration packages and service terms for senior executives;
- Set targets for senior executives and approve equity-based incentive share plans and the granting of performance share awards;
- Approve non executive director remuneration structure.

The ERCC met three times in 2005. Its key focus was on the assessment and development, target setting and determination of the compensation, incentive plans and awards of the management team.

The ERCC reviewed and approved the granting of share options and conditional performance share awards under ST Engineering's approved share plans and also fine-tuned the EVA-based incentive plan. To ensure that the Group continues to attract and retain experienced members for the ST Engineering Board, the ERCC reviewed the non executive directors' fee package for 2005.

The Report includes on page 220 a group-wide cross section of executive remuneration from \$100,000 upwards, in bands of \$50,000 to \$250,000, by number of employees. In addition, the Company has provided a breakdown of fixed and variable payments.

This is a comprehensive analysis detailing remuneration of its more than 1,000 executives, instead of a small group of selected individuals. It therefore gives a better perspective of the remuneration pattern in the Group.

The Senior Human Resource Committee, chaired by Mr Peter Seah, comprises Mr Tan Pheng Hock, Lieutenant-General (LG) Ng Yat Chung and Dr Tan Kim Siew. The Committee met once during the year to review the leadership pipeline for the organisation and development of its senior staff. Through its support for and direction of the Group's leadership development initiatives, the Committee has not only enhanced the process of identifying and screening talented people to be groomed for senior positions, but also the system of assessing their strengths and development needs based on the Group's leadership competencies framework. The Committee also reviewed the succession plans for key positions in the Group.

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

ST Engineering prepares its financial statements in accordance with the Singapore Financial Reporting Standards as prescribed by the Council on Corporate Disclosure and Governance under the Companies Act.

The Directors place importance on the presentation of financial statements that show a balanced and clear assessment of the Group's financial position and prospects. A detailed assessment is

provided in the Letter to Shareholders on page 4 and the Operating Financial Review (OFR) set out on page 54.

Reporting on corporate governance is not just about ticking a list of compliances. It is about how a company is managed and what drives its vision. To enable ST Engineering's shareholders to better understand the Group's dynamics, the Company has devoted a segment of the OFR to provide an overview of each of the sectors. The OFR reports each sector's performance, major acquisitions and key projects as well as highlights the risk related factors of the Group's business and risk management framework.

The Board proposes its directors' fee package to shareholders annually at its AGM for approval. In making this proposal to shareholders, the Board relies on the recommendations of the ERCC. The re-appointment of auditors is also subject to approval at each AGM. In its recommendation to shareholders on the appointment and re-appointment of auditors, the Board relies on the advice of the Audit Committee.

Directors and key senior executives of the Group are prohibited from dealing in ST Engineering shares in the two weeks prior to the announcement of ST Engineering's first quarter, half year, third quarter and full year results. Additionally, all directors of the Group and its employees are required to observe the insider trading laws at all times.

The directors' interests in shares of ST Engineering and its related companies during the year are found on pages 98 to 109.

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

The Audit Committee (AC) is supported in its work by the audit committees of the four main subsidiaries. The respective chairmen of the audit committees of the four subsidiaries are invited to attend the AC meetings of ST Engineering so as to have a clear understanding of policies made at the holding level and to give feedback from the subsidiaries' audit committees.

The AC has full authority to commission and review findings of internal investigations into matters where it has been alerted of any suspected fraud or irregularity or failure of internal controls or infringement of any law likely to have a material impact on the listed Group's operating results. It can investigate any matter within its terms of reference and with the full cooperation of management.

The AC comprises Mr Koh Beng Seng as Chairman, Dr Philip Pil-lai and Mr Venkatachalam Krishnakumar. All the members of the AC are independent directors. The AC held four meetings during the year including a January 2005 session with the external and internal auditors, without the presence of management, to review FY2004 results. All AC members are veterans in their respective fields and bring a depth of expertise in the areas of finance, audit and accounting to the Committee.

The AC reviewed and recommended to the Board the release of the full year and half year financial statements, and considered and approved the 2005 Audit Plan and the 2005 Internal Audit Plan. It also reviewed internal control procedures, Interested Person transactions and corporate guarantee status and was briefed on the risk review framework in a joint meeting with the Risk Review Committee. Having been delegated authority by the Board, the AC also met and approved the release of the financial results for the first quarter and third quarter of 2005.

During the year, the AC met to deliberate on the parameters for putting in place a Group Whistle Blowing Policy. The Policy will serve to provide an independent feedback channel for employees to report any corporate wrongdoings.

ST Engineering implemented a new policy restricting the engagement of its auditor for non-audit purposes to 50% of total fees. This policy was made to facilitate regulatory compliance. The AC reviewed the nature and extent of non-audit services provided by the external auditors during the year, which included a due diligence study and tax compliance services. It was satisfied that the non audit services provided by the auditors during the year was not in excess of 50% of total fees and not significant enough to call into question the external auditors' independence. Details of audit and related fees are found on page 202.

*During the year, the AC met to deliberate on the parameters for putting in place the Group's Whistle Blowing Policy.*

In January 2006, the AC reviewed the audit observations with the external auditors for the financial statements for FY2005 audit. The AC also met with the external and internal auditors, without the presence of management, to review the FY2005 results. There were no major issues highlighted and the auditors confirmed that they would provide an unqualified report.

The AC also reviewed the performance of the external auditors. It recommended to the Board the re-appointment of Ernst & Young as auditors for FY2006, having been satisfied with their standards of audit, independence and objectivity.

**Internal Controls (Principle 12)**  
**Internal Audit (Principle 13)**

The AC oversees and appraises the quality of the audit effort of the Company's internal audit (IA) function.

The Board, through the AC, the President and CEO and the Chief Financial Officer, considers that the Group's framework of internal controls and procedures is adequate to provide reasonable assurance of the integrity, confidentiality and availability of critical information and the effectiveness and efficiency of operations, safeguarding of assets and compliance with rules and regulations. It is also satisfied that problems are identified on a timely basis and that there is in place a process for follow-up actions to be taken promptly to minimise unnecessary lapses and maximise best practices, and for the identification and containment of business risks.

The IA supports the AC and the Risk Review Committee in reviewing the adequacy of the Company's risk management system and internal controls.

Staffed by qualified executives, the IA has unrestricted direct access to the AC. The Head of IA's primary line of reporting is to the Chairman of the AC, although she reports administratively to the Chief Financial Officer of the Company.

As a member of the Singapore branch of the Institute of Internal Auditors Incorporated, USA (IIA), the IA is guided by the Standards for the Professional Practice of Internal Auditing set by the IIA. These consist of attribute standards, performance standards and implementation standards.

The IA plans its internal audit schedules in consultation with, but independently of, management and its Internal Audit Plan is submitted to the AC for approval at the beginning of each year. The AC also meets with the IA at least once a year without the presence of management.

During the year, the IA adopted a risk-based auditing approach that focuses on material internal controls, including financial, operational and compliance controls. Audits were carried out on all significant local and overseas business units in the Company. All audit reports are submitted to the AC for deliberation and copies of these reports are given to the relevant senior management.

*During the year, the IA adopted a risk-based auditing approach that focuses on material internal controls, including financial, operational and compliance controls.*

Furthermore, the IA's summary of findings and recommendations are discussed at the AC meetings. There were no significant control issues highlighted by the IA.

### **Risk Management**

The Risk Review Committee, chaired by Mr Winston Tan, comprises LG Ng Yat Chung, Mr Lucien Wong, Mr Venkatachalam Krishnakumar, Mr Tan Pheng Hock and Mr Chang See Hiang, a co-opted member and a Board Director of Singapore Technologies Aerospace. The Committee met five times during the year to review the key risk areas of each sector and to receive updates from management on its ongoing work with the consultants to set up and roll out a risk management framework. In addition, the Committee reviewed the structure for a Business Continuity Plan and Crisis Communication Programme.

The details on risk management are found on pages 88 to 91.

During the year, the IA carried out some Control Self Assessment (CSA) projects for the company's subsidiaries and performed follow-up reviews of the previous CSA reports. CSA is a methodology that helps management identify and manage risks. It has structured processes that tap into the knowledge and experience of staff to assess the risks and controls of their businesses and the systems and processes employed.

### **Budget and Finance**

Budgets prepared by the respective subsidiaries are consolidated at the ST Engineering level and presented to the Budget and Finance Committee for review and recommendation to the Board for approval.

During the year, the Budget and Finance Committee held three meetings. Chaired by Mr Lucien Wong, the Committee members are Mr Quek Poh Huat, Dr Tan Kim Siew and Mr Tan Pheng Hock. The Committee recommended approval of the 2005 Plan to the Board and reviewed the 2005 forecast against the Plan every quarter. The Committee also reviewed projections for the next five years.

### **Business Investment and Divestment Committee**

The Business Investment and Divestment Committee comprises Mr Lim Chin Beng as Chairman (until 22 September 2005), Mr Tan Pheng Hock, LG Ng Yat Chung, Mr Winston Tan and Mr Quek Poh Huat.

During the year, the Business Investment and Divestment Committee held three meetings to consider key investments by the Company's subsidiaries.

#### **Communication with Shareholders (Principle 14) Greater Shareholder Participation (Principle 15)**

The Group has a comprehensive investor programme aimed at providing existing and potential investors with prompt disclosure of information to enable them to have a better understanding of the Group's businesses and to make a reasonable assessment of ST Engineering's performance. ST Engineering also maintains a regularly updated website, which provides a chronology of the latest press releases and highlights of the corporate events of each of its sectors and their respective capabilities.

In 2005, ST Engineering hosted over 200 investor meetings including participation in international roadshows in 12 major financial centres. ST Engineering is committed to timely disclosures to ensure that the investing community receives an updated and balanced view of the Group's performance and business. The Board members attend AGMs and extraordinary general meetings where the shareholders present are given an opportunity to clarify or question the Board on issues pertaining to the resolutions proposed before they are voted on. The external auditors are also present at the AGM to address questions on audit related matters from shareholders. The Group fully supports the Code's principle of encouraging active shareholder participation. More information about investor relations can be found on pages 47 to 50.

The Group remains a firm supporter of investor education. Through regular sponsorship, ST Engineering continues to support the initiatives of the Securities Investors Association (Singapore) (SIAS) on investor education programmes. The Group also engages in regular dialogue with the SIAS to improve its disclosure and transparency standards.

Financial and other information are made available on the Company's website at <http://www.stengg.com>, which is regularly updated.

# Board composition and committees

(As at 31 December 2005)

	Audit Committee (estbd on 5/1/1998)	Business Investment & Divestment Committee (estbd on 8/9/1997)	Executive Resource & Compensation Committee (estbd on 6/12/1997)	Nominating Committee (estbd on 4/12/2002)	Budget and Finance Committee (estbd on 6/1/1998)	Research Development & Technology Committee (estbd on 1/8/2003)	Senior Human Resource Committee (estbd on 16/1/1998)	Risk Review Committee (estbd on 7/12/1998)	Tenders Committee (estbd on 5/1/1998)
<b>Board Members</b>									
Mr Peter SEAH Lim Huat		<b>C</b>	<b>C</b>	<b>M</b>			<b>C</b>		
Mr TAN Pheng Hock		<b>M</b>			<b>M</b>	<b>M</b>	<b>M</b>	<b>M</b>	
Mr KOH Beng Seng	<b>C</b>								
Lieutenant-General NG Yat Chung		<b>M</b>					<b>M</b>	<b>M</b>	
Dr TAN Kim Siew					<b>M</b>		<b>M</b>		
Professor LUI Pao Chuen						<b>C</b>			
Mr Winston TAN Tien Hin		<b>M</b>				<b>M</b>		<b>C</b>	
Mr Lucien WONG Yuen Kuai					<b>C</b>			<b>M</b>	
Dr Philip Nalliah PILLAI	<b>M</b>		<b>M</b>	<b>C</b>					
Mr QUEK Poh Huat		<b>M</b>			<b>M</b>				
Mr Venkatachalam KRISHNAKUMAR	<b>M</b>		<b>M</b>	<b>M</b>				<b>M</b>	
Brigadier-General Bernard TAN Kok Kiang <sup>1</sup>									
Mr LIM Chin Beng <sup>2</sup>		<b>CC/C</b>							
<b>Non Board Members</b>									
Mr CHANG See Hiang								<b>CM</b>	

Rolling List of any Three Board Directors

**Denotes:**

- C** – Chairman
- CC** – Co-opted Chairman
- M** – Member
- CM** – Co-opted Member

<sup>1</sup> Alternate Director to Lieutenant-General NG Yat Chung

<sup>2</sup> Appointed Director on 31 March 2005 and resigned on 22 September 2005

## Code Of Corporate Governance 2005 Compliance Directory

Code Principle	Reference
<p><b>1 The Board's Conduct of Affairs</b> 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.</p>	Pages 31 and 32
<p><b>2 Board Composition and Guidance</b> There should be a strong and independent element on the Board, which is able to exercise objective judgement 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.</p>	Pages 32 and 33
<p><b>3 Chairman and Chief Executive Officer</b> 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.</p>	Page 32
<p><b>4 Board Membership</b> There should be a formal and transparent process for the appointment of new directors to the Board.</p>	Pages 33 and 34
<p><b>5 Board Performance</b> 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.</p>	Pages 33 and 34
<p><b>6 Access to Information</b> In order to fulfil their responsibilities, Board members should be provided with complete, adequate and timely information prior to board meetings and on an ongoing basis.</p>	Pages 34 and 35
<p><b>7 Procedures for Developing Remuneration Policies</b> There should be a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual directors. No director should be involved in deciding his own remuneration.</p>	Pages 35 and 36
<p><b>8 Level and Mix of Remuneration</b> The level of remuneration should be appropriate to attract, retain and motivate</p>	Pages 35 and 36

Code Principle	Reference
<p>the directors needed to run the company successfully but companies should avoid paying more than is necessary for this purpose. A significant proportion of executive directors' remuneration should be structured so as to link rewards to corporate and individual performance.</p>	
<p><b>9 Disclosure on Remuneration</b> 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.</p>	Pages 35, 36, 219 and 220
<p><b>10 Accountability</b> The Board should present a balanced and understandable assessment of the company's performance, position and prospects.</p>	Pages 36 and 37
<p><b>11 Audit Committee</b> The Board should establish an Audit Committee with written terms of reference which clearly set out its authority and duties.</p>	Pages 37 and 38
<p><b>12 Internal Controls</b> The Board should ensure that the management maintains a sound system of internal controls to safeguard the shareholders' investments and the company's assets.</p>	Pages 38 and 39
<p><b>13 Internal Audit</b> The company should establish an internal audit function that is independent of the activities it audits.</p>	Pages 38 and 39
<p><b>14 Communication with Shareholders</b> Companies should engage in regular, effective and fair communication with shareholders.</p>	Page 40
<p><b>15 Communication with Shareholders</b> Companies should encourage greater shareholder participation at AGMs, and allow shareholders the opportunity to communicate their views on various matters affecting the company.</p>	Page 40