

## REPORT ON CORPORATE GOVERNANCE

The Straits Trading Company Limited (the “**Company**”) is committed to high standards of corporate governance. This report describes the Company’s corporate governance policies and practices during the financial year ended 31 December 2017 (“**FY2017**”) with specific reference to the Code of Corporate Governance 2012 (the “**Code**”).

### THE BOARD’S CONDUCT OF AFFAIRS *(Principle 1)*

The Board provides policy direction and entrepreneurial leadership, approves the development and implementation of corporate strategies, and ensures that the necessary financial and human resources are in place for the Company to meet its objectives. In addition, the Board has established a framework of prudent and effective controls which enables risks to be assessed and managed, including safeguarding of shareholders’ interests and the Company’s assets.

The Board also sets the Company’s values and standards, and ensures that its obligations to all stakeholders are met and understood. Whilst the Board remains responsible for providing oversight in the preparation and presentation of the financial statements, it has delegated to the Management the task of ensuring that the financial statements are drawn up and presented in compliance with the relevant provisions of the Singapore Companies Act, Chapter 50 and the Singapore Financial Reporting Standards.

The Board has appointed the Executive Chairman to oversee the Management, and the Lead Independent Director to ensure continued good governance. Supported by the Board committees, namely the Audit and Risk Committee (“**ARC**”), Remuneration Committee (“**RC**”), Nominating Committee (“**NC**”) and Investment Committee, the Board also approves the appointment of Board members, key business initiatives, major investments and funding decisions, and interested person transactions. The Company has in place the Financial Authority Limit Policy (“**FAL**”) which was approved by the Board as the mechanism through which the Board or its delegate approves transactions and financial commitments within the Company and its subsidiaries (the “**Group**”). It is the responsibility of the Management to ensure that transactions presented to the Board for approval have satisfied all other Group policies and procedures. The FAL covers the authorisation limits of the Group’s activities such as investment activities, financing and debt management, foreign exchange and interest rate risk management, and capital and operating expenditure.

For the Company’s various projects, the Board has from time to time delegated authority to certain ad-hoc committees of the Board comprising two or more Directors, to provide detailed supervision and strategic oversight of such projects. Such ad-hoc Board committees provide strategic direction to the Management in the conduct of the projects.

The Board met five times in FY2017. Meetings by means of a conference telephone or similar communication equipment are permitted in the Company’s Constitution. The Directors’ attendance at the Board and the various Board committees’ meetings during FY2017 are as follows:

Name of Director	Board	Audit and Risk Committee	Nominating Committee	Remuneration Committee
Number of meetings held	5	4	2	1
<b>Attendance</b>				
Ms Chew Gek Khim	5		2	
Ms Chew Gek Hiang	5	4		1
Mr Goh Kay Yong David	5			
Mr Yap Chee Keong	5	4		
Mr Tham Kui Seng	5		2	1
Mr Tan Tiong Cheng	5	4		1
Dr Gary Hilton Weiss	5	4		
Mr Chia Chee Ming, Timothy	5	4	2	

The Company provides newly appointed Directors with information packs to familiarise them with the Company’s business and governance guidelines. In addition, new Directors were inducted to the Company’s business through orientation and/or briefing sessions.

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## **BOARD COMPOSITION AND GUIDANCE** *(Principle 2)*

The Board currently has 10 Directors. For FY2017, the Board comprised eight Directors, seven of whom were non-executive and four were considered independent. Mr Tan Chian Khong and Mr Chua Tian Chu were appointed as Directors of the Company on 1 January 2018. The Board, in concurrence with the NC, was of the view that, taking into account the Company's scope of operations and its business requirements, the current size of the Board is appropriate. The Board considers an independent Director to be one who has no relationship with the Company, its related corporations, its 10% shareholders or its officers that could interfere, or be reasonably perceived to interfere, with the exercise of the Director's independent business judgement with a view to the best interests of the Company.

The Directors provided objective and independent judgement to the decision making of the Board. The non-executive Directors of the Company participated constructively and reviewed the Group's operations, budgets and strategies. They also assessed the effectiveness of the Board's processes and activities in meeting set objectives and corporate governance standards.

The Board as a group has the core competencies, such as accounting or finance, business or management experience, legal and industry knowledge, and strategic planning experience. Key information on the Directors are set out in pages 6 to 9.

## **EXECUTIVE CHAIRMAN** *(Principle 3)*

The Board is led by Ms Chew Gek Khim as the Executive Chairman. Ms Chew assumed the Chair on 24 April 2008 and was appointed Executive Chairman on 1 November 2009.

As Chairman of the Board, Ms Chew's duties include leading the Board, setting the Board agenda and ensuring that all Directors receive sufficient relevant information (both financial and non-financial) to enable them to participate and contribute effectively in Board discussions and decisions. She aims to promote openness and constructive relations between the Board members, and between the Board and the Management, and ensures effective communication with shareholders. Ms Chew also advocates high standards of corporate governance.

As the Executive Chairman, Ms Chew takes on executive oversight of the Management of the business segments. The Management is responsible for the daily management of the businesses and implementation of the Board's policies and decisions as well as ensuring compliance with the corporate governance policies of the Company as these relate to the respective business segments. The Management reports to the Board and is managed through the strategies adopted and monitored through the key performance indicators set for them.

## **LEAD INDEPENDENT DIRECTOR** *(Principle 3)*

In line with the recommendations set out in the Code, the Company has appointed a Lead Independent Director. Mr Chia Chee Ming, Timothy was appointed as an Independent Non-Executive Director and the Lead Independent Director on 27 February 2015.

The Lead Independent Director's role includes being available to shareholders to address any of their concerns and acting as the principal liaison between the independent Directors and the Executive Chairman on critical issues.

## **BOARD MEMBERSHIP** *(Principle 4)*

The Company has an NC comprising three Directors, the majority of whom, including the NC Chairman, are independent. The NC is currently chaired by Mr Chia Chee Ming, Timothy and the other members of the NC are Ms Chew Gek Khim and Mr Chua Tian Chu. Mr Tham Kui Seng was a member of the NC until 31 December 2017.

The Company has adopted a formal and transparent process for the appointment of new Directors through the NC which reviews the background of and conducts interviews with all candidates and makes recommendations accordingly to the Board for approval.

The functions of the NC include the evaluation of the Board's effectiveness, each Director's contributions and independence, as well as making recommendations on the appointment and re-nomination of Directors for the Board. The role and functions of the NC are set out in its Terms of Reference.

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The NC reviews and assesses the independence of the Directors at least once a year. The Directors are required to submit declarations of independence annually and report to the Company immediately on any changes to their external appointments, interest in shares and other relevant information. For FY2017, the Board, having taken into account the views of the NC, considered Mr Tham Kui Seng, Mr Tan Tiong Cheng, Dr Gary Hilton Weiss and Mr Chia Chee Ming, Timothy to be independent.

During FY2017, the Directors were updated on the relevant changes in financial reporting standards, regulatory requirements and governance practices. The Directors also participated in appropriate courses and discussion forums.

As the Directors have given sufficient time and effort to the Company's matters, notwithstanding their multiple directorships and appointments, the Board was of the view that there was no necessity to regulate the maximum number of listed company board representations that the Directors may hold.

### **BOARD PERFORMANCE** *(Principle 5)*

The Company has in place a process to assess the Board's effectiveness as a whole. The evaluation is carried out annually with each Director making his or her assessment by providing feedback to the NC through a Board assessment questionnaire.

In evaluating the performance of the individual Directors and the Board, the NC considers, amongst others, the Directors' attendance, contribution and participation at the Board and Board committee meetings, Directors' individual evaluations and the overall effectiveness of the Board.

### **ACCESS TO INFORMATION** *(Principle 6)*

Information is important to the Board's understanding of the Group's businesses and essential to preparing the Board members for effective meetings. Where required, the Management supplements the meeting papers with presentations on active operations and strategic issues to provide the Directors with a better understanding of the Group's operations. The Management is invited to attend the meetings to answer enquiries from the Directors. The Directors have access to Board and Board committees' papers through a secure web-based portal.

The Directors have separate and independent access to the Management and the services of the Company Secretary, who is responsible for ensuring that Board procedures are followed and applicable rules and regulations are complied with. The Company Secretary also assists the Chairman by ensuring good information flows within the Board and its committees, and between the Management and the non-executive Directors. The Company Secretary attends all Board and Board committees' meetings and his appointment or removal is subject to the Board's approval.

In the furtherance of their duties and if the Management's explanations are not satisfactory, the Directors may seek independent professional advice at the Company's expense.

### **PROCEDURES FOR DEVELOPING REMUNERATION POLICIES** *(Principle 7)*

#### **LEVEL AND MIX OF REMUNERATION** *(Principle 8)*

The Board has an RC comprising three non-executive Directors, the majority of whom, including the RC Chairman, are independent. Up till 31 December 2017, the RC was chaired by Mr Tham Kui Seng and Ms Chew Gek Hiang and Mr Tan Tiong Cheng were the other two members. Following the change of composition of the RC with effect from 1 January 2018, the RC is chaired by Dr Gary Hilton Weiss and Mr Goh Kay Yong David and Mr Tan Tiong Cheng are the other members of the RC.

The functions of the RC include the recommendation of a framework of remuneration for the Board and key management personnel, and the recommendation of specific remuneration packages for the Executive Chairman and key management personnel for the Board's approval. The role and functions of the RC are set out in the Terms of Reference of the RC.

The Company has adopted a performance-based approach to compensation where employees' remuneration is linked to individual and corporate performances. The RC sees the importance of a market competitive remuneration strategy to attract, retain and motivate employees to high performance levels that creates value for the shareholders. Remuneration is determined according to the following general components: salary, contractual bonus and performance bonus. Presently, the Company does not have any share-based incentive scheme.

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Taking into account the performance of the Group and the responsibilities and performance of the Directors, Directors' fees (for the Board and the various Board committees) were set in accordance with a remuneration framework comprising responsibility fees and attendance fees. The Executive Chairman does not receive any Director's fees. Non-executive Directors are paid Director's fees, subject to approval at the annual general meeting. The non-executive Directors have no service contracts. No individual Director fixes his or her own remuneration.

### DISCLOSURE ON REMUNERATION (Principle 9)

The summary remuneration table for the Directors of the Company in all capacities for FY2017 is as follows:

Name of Director	Salary	Bonus	Benefits in kind	Directors' fees	Total
<b>S\$1,250,001 – S\$1,500,000</b>					
Ms Chew Gek Khim	67%	33%	–	–	100%
<b>S\$250,000 and below</b>					
Ms Chew Gek Hiang	–	–	–	100%	100%
Mr Goh Kay Yong David	–	–	–	100%	100%
Mr Yap Chee Keong	–	–	–	100%	100%
Mr Tham Kui Seng	–	–	–	100%	100%
Mr Tan Tiong Cheng	–	–	–	100%	100%
Dr Gary Hilton Weiss	–	–	–	100%	100%
Mr Chia Chee Ming, Timothy	–	–	–	100%	100%

There are no employees of the Group who are immediate family members of a Director, and whose remuneration exceeds S\$50,000 a year.

The summary remuneration table for the key management personnel (who are not Directors) in bands of S\$250,000 for FY2017 is as follows:

Name of Key Management Personnel	Salary	Bonus	Benefits in kind	Total
<b>S\$250,001 – S\$500,000</b>				
Ms Yeo Sock Koon	91%	–	9%	100%

Based on the current organisation and reporting structure of the Group, it is more appropriate for one executive, who is not a Director of the Company, to be identified as the Group's top key management personnel instead of five as required under the Code for FY2017.

Given the sensitive nature of employee remuneration, as well as possible pressures from both within and outside the Group upon disclosing such information, the Board has decided that the detailed disclosure of each Director's and key management personnel's remuneration is not in the interests of the Company. The total remuneration paid to the key management personnel (including the Executive Chairman) in FY2017 amounted to S\$1,658,418.

### ACCOUNTABILITY (Principle 10)

In presenting the annual financial statements and quarterly announcements to shareholders, it is the aim of the Board to provide shareholders with a balanced and detailed analysis, explanations and assessment of the Company's and the Group's performance, financial position and prospects.

The Management currently provides the Board with balanced and understandable accounts of the Company's performance, financial position and business prospects on a monthly basis.

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### AUDIT AND RISK COMMITTEE (*Principle 12*)

For FY2017, the ARC comprised five non-executive Directors, the majority of whom were independent. The ARC was chaired by Dr Gary Hilton Weiss and the other members of the ARC were Ms Chew Gek Hiang, Mr Yap Chee Keong, Mr Tan Tiong Cheng and Mr Chia Chee Ming, Timothy. Following the re-composition of the ARC with effect from 1 January 2018 which Dr Gary Hilton Weiss continues to chair, the other members of the ARC are Ms Chew Gek Hiang, Mr Chia Chee Ming, Timothy and Mr Tan Chian Khong.

All members of the ARC are financially literate and have accounting or related financial management expertise or experience.

The role of the ARC is documented in the Terms of Reference approved by the Board. The Terms of Reference defines the purpose, authority and responsibilities of the ARC. The duties of the ARC include:

- reviewing annually the external audit scope, audit plans and relevant processes, and the results of the external audit work with regard to the adequacy, cost effectiveness, and appropriateness of the accounting and financial controls of the Company;
- making recommendations to the Board on the appointment and re-appointment of the external auditor, and reviewing the terms of engagement of the external auditor, including their compensation, performance evaluation and independence;
- reviewing the adequacy and effectiveness of the Company's internal accounting controls and the financial reporting process;
- reviewing the significant accounting and reporting principles, practices and procedures applied by the Company in preparing its financial statements;
- reviewing interested person transactions from time to time to determine if they are carried out on normal commercial terms and are not prejudicial to the interests of the Company and its minority shareholders;
- reviewing annually and as may be necessary from time to time, the internal audit scope, internal audit plans, relevant processes and the focus on risk; and
- reviewing and evaluating annually the adequacy and effectiveness of the Company's risk management and internal control systems, including financial, operational, compliance and information technology controls and processes for assessing significant risks or exposures and the procedures Management has taken to monitor, control and minimise such risks or exposures to the Company.

The ARC has the power to conduct or authorise investigations into any matters within its scope of responsibilities. The Board is updated by the ARC Chairman on the significant issues discussed at the ARC meetings.

In performing its functions, the ARC reviews the overall scope of both internal and external audits and the assistance given by the Company's officers to the internal and external auditors. The ARC also meets with the internal and external auditors on a quarterly basis to review their findings and effectiveness.

To assist the discharging of its functions, the ARC is provided with adequate resources, has full access to and co-operation of the Management and the internal auditor, and has full discretion to invite any Director or executive officer to attend its meetings. All major findings and recommendations are brought to the attention of the Board of Directors.

The ARC reviews interested person transactions to ensure that they are carried out on normal commercial terms and are not prejudicial to the interests of the Company and its minority shareholders. The ARC also reviews the consolidated financial statements and the auditor's report, as well as related announcements to shareholders and the Singapore Exchange Securities Trading Limited ("SGX-ST") before submission to the Board.

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The ARC has reviewed and is satisfied that the independence and objectivity of the external auditor have not been compromised by the provision of non-audit services. Accordingly, it has recommended to the Board the nomination of the external auditor, Ernst & Young LLP, for re-appointment at the forthcoming Annual General Meeting to be held on 27 April 2018. In FY2017, the ARC met once with the external auditor without the presence of the Management.

The details of the remuneration paid to the external auditor for FY2017 are as follows:

	S\$'000
<b>Audit fees paid/payable to:</b>	
- Auditor of the Company	416
- Overseas affiliates of the auditor of the Company	319
<b>Non-audit fees paid/payable to:</b>	
- Auditor of the Company	109
- Overseas affiliates of the auditor of the Company	53

The ARC, having reviewed the nature and quantum of the non-audit fees, was satisfied that the independence of the external auditor had not been compromised by the provision of the non-audit services.

In appointing the audit firms for the Group, the ARC is satisfied that the Company has complied with the Listing Rules 712, 715 and 716.

### KEY AUDIT MATTERS

The external auditor have set out the key audit matters in respect of FY2017 in the Independent Auditor's Report on pages 45 to 50 of the Annual Report. The ARC concurs with the basis and conclusions included in the Independent Auditor's Report with respect to the key audit matters.

### WHISTLEBLOWER POLICY

In line with Guideline 12.7 of the Code, the Company has a whistle-blowing procedure in place for employees to raise, in confidence, possible improprieties in matters of financial reporting or other matters. The policy, available on the Company's intranet and employee handbook, aims to foster a workplace conducive to open communication regarding the Company's business practices and to protect the employees from unlawful retaliation and discrimination for the proper disclosing or reporting of illegal or unethical conduct in good faith.

Complaints may be made to the designated officers by telephone, email or under confidential mail. All cases reported will be investigated objectively and thoroughly and appropriate action will be taken where warranted. A summary of the reports received, investigation results and subsequent actions taken are reported to the ARC on a quarterly basis. Under certain circumstances, the ARC will be informed of any complaint, as soon as practicable.

### RISK MANAGEMENT AND INTERNAL CONTROLS *(Principle 11)*

The Board recognises that it is responsible for risk governance and ensuring that the Management maintains a sound system of risk management and internal controls to safeguard shareholders' investments and the Group's assets. The Board appreciates that risk management is an on-going process in which the Management continuously participate to evaluate, monitor and report to the Board and ARC on significant risks.

The ARC under its Terms of Reference as delegated by the Board, has the responsibility to oversee the Group's risk management framework and policies.

The Group has engaged KPMG Services Pte. Ltd. to develop and implement a Board Assurance Framework which includes an enterprise risk management framework to identify the significant risks facing each major business segment, the potential impact and likelihood of those risks occurring, the control effectiveness and action plans taken to mitigate those risks. The Group has also developed a risk governance structure, which provides details on the roles and responsibilities for the Board and Management in risk monitoring, escalation, mitigation and reporting.

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The Group has established key risks indicators with tolerance limits to monitor movements in its significant risks and to proactively manage them within acceptable levels. These key risk indicators have been reviewed and approved by the Board and they are also monitored on a quarterly basis.

The internal auditor regularly reviews all significant controls, policies and procedures and highlight all significant matters to the Management and the ARC.

During FY2017, the Board and ARC reviewed the adequacy and effectiveness of the Group's internal controls in relation to the significant risks, including financial, operational, compliance and information technology controls, and risk management systems. Based on the work performed by the external and internal auditors, the Management's representations and the Board's enquiries and discussions, the Board is assured that the Group's risk management and internal controls systems are adequate and effective. In addition, the Board has received assurance from the Executive Chairman and Group Financial Controller that the financial records have been properly maintained and properly drawn up in accordance with the Companies Act and Singapore Financial Reporting Standards. The financial records give a true and fair view of the Group's operations and finances that are not misleading in any material aspect, and that the Group's risk management and internal control systems are effective.

Based on the internal controls established and maintained by the Group, work performed by the internal and external auditors, and reviews performed by and assurance from the Executive Chairman and Group Financial Controller, the internal auditor, the ARC and the Board, the Board, with the concurrence of the ARC, is of the opinion that the Group's system of risk management and internal controls, addressing financial, operational, compliance and information technology risks, were adequate and effective as at 31 December 2017.

However, the Board is also aware that such a system can only provide reasonable, but not absolute, assurance that the Group will not be adversely affected by any event that could be reasonably foreseen as it strives to achieve its business objectives. The Board also notes that no system of internal controls and risk management can provide a complete assurance against human error, poor judgement in decision making, losses, fraud or other irregularities.

### **INTERNAL AUDIT** (*Principle 13*)

The Company's internal audit function has been outsourced to KPMG Services Pte. Ltd. The internal auditor's primary line of reporting is to the Chairman of the ARC. All internal audit reports are submitted to the ARC for consideration, with copies of those reports extended to senior management. In order to ensure timely and adequate closure of internal audit findings, the status of implementation of the actions as agreed by senior management is tracked and discussed with the ARC.

In carrying out its duties, the internal auditor has adopted the International Standards for the Professional Practice of Internal Auditing set by The Institute of Internal Auditors.

For FY2017, the ARC reviewed and approved the annual internal audit plans and ensured that the internal audit functions were adequately resourced. The internal auditor has unrestricted direct access to the ARC and unfettered access to documents, records, properties and personnel within the Group to carry out its duties effectively.

### **COMMUNICATION WITH SHAREHOLDERS** (*Principle 15*)

The Company takes a serious view of maintaining full and adequate disclosure, in a timely manner, of material events and matters concerning its businesses through SGXNET announcements, press releases, circulars to shareholders and annual reports.

In addition, shareholders and the public can access information pertaining to the Company's businesses, media releases and other corporate information via its website. The Company's Corporate Communications department also facilitate effective and unbiased communications with shareholders, analysts, fund managers and the media through Company presentations, and non-deal roadshows and investment conference organised by major banks and brokerage firms. The Company's website provides the contact details for investors to submit their feedback and queries.

The Company endeavours to provide as much and as prompt information as is possible to its shareholders, taking into account the legal and regulatory framework governing the release of material and price-sensitive information. The Company releases all price-sensitive information through SGXNET.

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At the Company's annual general meeting in 2017, a presentation on the Company's business was made to the shareholders. These presentation slides were also uploaded on SGX-ST through SGXNET and the Company's website. Shareholders are encouraged to ask questions both about the resolutions being proposed and about the Group's operations in general. The Constitution of the Company permits a member of the Company to appoint not more than two proxies to attend and vote instead of the member. As there is still a major concern on the security of information transmitted over the Internet, the Board has decided that it is not appropriate, for the time being, to amend its Constitution to allow for in absentia voting methods.

The Company ensures that separate resolutions are proposed at general meetings on each distinct issue. The external auditor, the chairpersons of the various Board committees and where necessary, the legal advisers are present to assist the Directors in addressing any relevant queries by shareholders.

To enhance participation by shareholders, the Company puts all resolutions at general meetings to vote by poll and announces the detailed results showing the number of votes cast for and against each resolution and the respective percentages. The polling results are also announced on SGX-ST and the Company's website.

### DEALINGS IN SECURITIES

The Group has issued internal guidelines on dealings in the securities of the Company to the Directors and employees of the Company and its subsidiaries, advising them, amongst others, not to deal in the securities of the Company on short-term considerations. On a quarterly basis, the Directors and employees are advised of the prohibitions in dealings in the securities of the Company during the period commencing two weeks before the announcement of the Group's quarterly financial statements, and one month before the Group's full year financial statements, and ending on the respective announcement dates, and while they are in possession of material price-sensitive information which is generally not available.