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## REPORT ON CORPORATE GOVERNANCE for the year ended 30 September 2003

The commitment of Fraser and Neave, Limited ("F&N") is to corporate excellence through upholding a high standard of corporate governance, in accordance with the Code of Corporate Governance (the "Code"). F&N recognizes the need to keep balance with accountability, in creating and preserving long-term shareholder value and achieving its mission and vision for the F&N Group of Companies (the "F&N Group").

This Report on Corporate Governance describes the corporate governance practices of F&N, with reference to the principles set out in the Code.

Principle 1  
The Board's  
Conduct of  
its Affairs

The Board of directors of F&N effectively leads and controls the long-term vision and strategic direction of the F&N Group.

The Board of directors comprises :

Dr Michael Fam	(Executive Chairman)
Mr Fock Siew Wah	(Deputy Chairman and Non-executive)
Dr Han Cheng Fong	(Managing Director)
Mr Ho Tian Yee	(Non-executive)
Mr Stephen Lee	(Non-executive)
Mr Lee Ek Tieng	(Non-executive)
Dr Lee Tih Shih	(Non-executive)
Mr Patrick Goh	(Executive)
(alternate to Dr Han Cheng Fong)	

On 21 October 2003, the Board increased its members by the appointment of Mr Nicky Tan Ng Kuang as a non-executive director of F&N. Mr Tan brings to the F&N Group, a wealth of corporate finance experience.

The Board meets regularly to oversee the business affairs of the F&N Group, approve the financial objectives and business strategies, and monitor standards of performance, both directly and through specialised committees set up by the Board. The number of board meetings held in the year and meetings of specialised committees established by the Board are as follows :

Directors	BOARD		EXCO		AUDIT		REMUNERATION		NOMINATING	
	No. of Meetings	Attendance	No. of Meetings	Attendance	No. of Meetings	Attendance	No. of Meetings	Attendance	No. of Meetings	Attendance
Dr Michael Fam	10	10	10	10	NA	NA	NA	NA	2	2
Mr Fock Siew Wah	10	9	10	10	3	3	3	3	2	2
Mr Ho Tian Yee	10	8	10	9	NA	NA	3	3	2	2
Mr Stephen Lee	10	9	10	10	3	3	3	3	2	2
Mr Lee Ek Tieng	10	9	NA	NA	3	3	3	3	NA	NA
Dr Lee Tih Shih *	10	4	NA	NA	NA	NA	NA	NA	NA	NA
Dr Han Cheng Fong	10	10	NA	NA	NA	NA	NA	NA	NA	NA
Mr Patrick Goh (alternate to Dr Han Cheng Fong)	10	8	NA	NA	NA	NA	NA	NA	NA	NA

NA : Not Applicable

**Note :**

\* Dr Lee Tih Shih is on leave of absence from the Board.

## REPORT ON CORPORATE GOVERNANCE for the year ended 30 September 2003

The Executive Committee (“EXCO”) comprises :

Dr Michael Fam	(Chairman)
Mr Fock Siew Wah	(Member)
Mr Ho Tian Yee	(Member)
Mr Stephen Lee	(Member)

Except for certain matters specifically reserved for decision by the Board, EXCO is empowered by the Board to exercise full Board powers and authority, when the Board does not sit. The Executive Chairman chairs the EXCO which formulates the F&N Group’s strategic development initiatives and directions, has oversight of the F&N Group’s conduct and corporate governance structure, and ensures that the F&N Group achieves its desired performance goals and enhance long-term shareholder value.

The F&N Group has implemented on-going training for directors. An orientation programme is in place for new directors, and with respect to major new projects, for existing directors. During the year, two sessions on the Companies (Amendment) Act 2003 were conducted for directors of the F&N Group to apprise them of the new amendments. With a few exceptions, all directors are members of the Singapore Institute of Directors, and eligible to receive updates and training from it.

Principle 2  
Board  
Composition  
and Balance

The Board, of which more than half are independent non-executive directors, is able to exercise objective judgment on corporate affairs independently from Management. The Board on the recommendation of the Nominating Committee, has reviewed, and endorsed the change of status of Dr Lee Tih Shih to a non-independent director, such change arising from his appointment as a non-executive director on the board of directors of the Oversea-Chinese Banking Corporation Limited (“OCBC”), as well as his relationship with one non-executive director on the board of directors of OCBC who is also a member of the OCBC Executive Committee. OCBC is a substantial shareholder of F&N, with which the F&N Group has a business relationship, under normal commercial terms. Dr Lee’s non-independent status was effective 4 April 2003, the date of Dr Lee’s appointment to the board of directors of OCBC.

The size of the Board, the standing of members of the Board in the business community, and their experience, knowledge, expertise, and core competencies, provide for effective decision-making, providing strength, resilience and leadership to, and charting the direction for, the F&N Group. The F&N Group is focused on delivering quality products and services, whilst maintaining high standards of corporate governance and compliance.

Principle 3  
Chairman  
and Chief  
Executive  
Officer

Although the roles of the Chairman and the Chief Executive Officer (“CEO”) are not separate, in order to ensure an appropriate balance of power, increased accountability and greater capacity of the Board for independent decision making, the Executive Chairman operates through the Managing Director, the Group Financial Controller, the Group Company Secretary, and the Chief Executive Officers of the respective business units. The Executive Chairman is accountable to the Board, of which the Deputy Chairman and more than half are independent non-executive directors.

An agenda, together with relevant papers, are circulated before the holding of all Board and specialised Committee meetings. There is control over the quality, quantity and timeliness of the flow of information between Management and the Board.

The Group Legal Manager/Compliance Officer is responsible for ensuring compliance with the F&N Group’s guidelines on corporate governance.

Principle 4  
Board  
Membership

The Nominating Committee’s written terms of reference, includes ensuring a formal and transparent process for the appointment of new directors to the Board, that existing directors submit themselves for re-nomination and re-election at regular intervals, and determining annually the independence of directors.

## REPORT ON CORPORATE GOVERNANCE for the year ended 30 September 2003

At the extraordinary general meeting of F&N on 30 January 2003, shareholders approved a resolution to amend certain Articles in the Articles of Association of F&N, to provide that all directors, including a person holding the office of CEO, be subject to re-nomination and re-election at regular intervals.

The Nominating Committee comprises a majority of independent directors :

Mr Fock Siew Wah	(Chairman)
Dr Michael Fam	(Member)
Mr Ho Tian Yee	(Member)
Mr Stephen Lee	(Member)

Although some of the Board members have multiple board representations, the Nominating Committee is satisfied that sufficient time and attention are given by the directors to the affairs of the F&N Group.

Key information regarding directors, is set out on pages 60 and 61.

### Principle 5 Board Performance

The Nominating Committee has assessed the effectiveness of the Board as a whole and the contribution of each director to the effectiveness of the Board. In drawing up objective performance criteria for such evaluation and determination, the Nominating Committee considers a number of factors, including achieving of financial targets, performance of the Board, performance of individual directors vis-a-vis attendance and contributions during Board meetings, as well as other factors set out in the Code.

### Principle 6 Access to Information

Board members are provided with adequate and timely information prior to board meetings, and on an on-going basis, and have separate and independent access to the Company's senior management, including the Group Company Secretary who, in the normal course of duties, attends all Board meetings. The Board may, at any time, in the furtherance of their duties, request for independent professional advice at the F&N Group's expense.

### Principle 7 Remuneration Matters

The role of the Remuneration Committee is to review and recommend to the Board, an appropriate and competitive framework of remuneration for the Board, as well as administer the F&N Executives Share Option Scheme (the "F&N ESOS"). The written terms of reference of the Remuneration Committee provides for a formal and transparent procedure for fixing the remuneration packages of individual directors, and no director is involved in deciding his own remuneration.

The composition of the Remuneration Committee is as follows :

Mr Fock Siew Wah	(Chairman)
Mr Ho Tian Yee	(Member)
Mr Stephen Lee	(Member)
Mr Lee Ek Tieng	(Member)

Mr Fock Siew Wah, the Chairman, is an independent non-executive director, and members comprise non-executive directors who are independent of Management and free from any business or other relationships which may materially interfere with the exercise of their independent judgment. Mr Stephen Lee, holds the position of President of the Singapore National Employers' Federation and is a council member of the National Wages Council. He brings with him substantial expertise and experience in the field of executive compensation.

The Remuneration Committee recommends to the Board a framework of remuneration for the Board and key executives, and determines specific remuneration packages for each executive director and the Executive Chairman, for endorsement by the entire Board.

**REPORT ON CORPORATE GOVERNANCE** for the year ended 30 September 2003Principle 8  
Level and  
Mix of  
Remuneration

In setting remuneration packages, the Remuneration Committee takes into account the performance of the Group as a whole, as well as individual directors and key executives, who align their interests with those of shareholders, linking rewards to corporate and individual performance. The Remuneration Committee also considers pay and employment conditions within the industry and in comparable companies. An annual performance incentive plan has been implemented for executive staff.

In respect of fees for directors, approval of shareholders is requested at each annual general meeting of F&N.

The review of service contracts for executive directors, comes under the purview of the Remuneration Committee which ensures fair and reasonable terms of service, tied in to performance.

F&N has in place the Fraser and Neave, Limited Executives Share Option Scheme (the "F&N ESOS"), which is administered by the Remuneration Committee. Executive Directors are eligible for the grant of options under F&N ESOS. Options can only be exercised by employees, 33 months from the offering date.

Principle 9  
Disclosure on  
Remuneration

The remuneration of directors and key executives are set out below :

	Fee %	Salary %	Bonus %	Allowances & Benefits %	Total %
<b>a) Directors of the Company</b>					
i) Between \$2,750,001 to \$3,000,000 Dr Michael Fam*	10	59	15	16	100
ii) Between \$1,250,001 to \$1,500,000 Dr Han Cheng Fong	-	56	31	13	100
iii) Between \$500,001 to \$750,000 Mr Patrick Goh	-	57	35	8	100
iv) Below \$250,000					
Mr Fock Siew Wah	100	-	-	-	100
Mr Stephen Lee	100	-	-	-	100
Mr Ho Tian Yee	100	-	-	-	100
Dr Lee Tih Shih	100	-	-	-	100
Mr Lee Ek Tieng	100	-	-	-	100
<b>b) Key Executives of the Group</b>					
i) Between \$1,000,001 to \$1,250,000 Mr Koh Poh Tiong	-	57	30	13	100
ii) Between \$750,001 to \$1,000,000 Mr Jeffrey Heng Wah Yong	-	63	35	2	100
iii) Between \$500,001 to \$750,000					
Mr Lai Seck Khui	-	63	26	11	100
Mr Tan Wee Tee	-	57	30	13	100
Mr Tan Ang Meng	-	64	27	9	100

\* In addition, on 2 October 2003, Dr Michael Fam was paid \$6,435,000 for achieving specified performance targets set by the Board under a 3-year service contract ended 30 September 2003. This amount is equivalent to 0.36% after tax of the increase in shareholders' value over the 3-year period.

## Performance award to Executive Directors

On 1 October 2000, the Company entered into formal service contracts with three Executive Directors (namely Dr Michael Fam, Mr Tan Yam Pin and Mr I A MacLean) incorporating, inter alia, a share

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performance related compensation scheme. Dr Fam's performance award consisted of two tranches each of 750,000 Share Appreciation Rights (SAR), based on the day's market price of \$6.05 per share. The qualifying level was a market price averaged over a 30-day period of \$8.00 for the first tranche and \$9.00 for the second tranche.

Mr Tan and Mr MacLean did not qualify for the entitlement of SAR during their service contracts which expired on 30 September 2002. Dr Fam qualified for the first tranche in January 2003 and for the second tranche in July 2003. At the end of his 3-year contract on 30 September 2003, the relevant price, being the highest average over 10 consecutive days, was \$10.34 and his entitlement of 1.5m SAR was settled at \$6,435,000.

Information on the F&N ESOS is set out in the Directors' Report on page 71.

### Principle 10 Accountability

Management is accountable to the Board, and the Board is accountable to the shareholders. Annual general meetings are held every year to obtain shareholders' approval to routine business, as well as the election of directors. Quarterly reporting will come into effect for the F&N Group from the financial year commencing 1 October 2003.

### Principle 11 Audit Committee

The Audit Committee comprises :

Mr Fock Siew Wah	(Chairman)
Mr Stephen Lee	(Member)
Mr Lee Ek Tieng	(Member)

all being independent non-executive directors appropriately qualified to discharge their responsibilities. The written terms of reference of the Audit Committee clearly set out its authority and duties.

The Audit Committee is empowered to investigate any matter relating to the F&N Group's accounting, auditing, internal controls and/or financial practices brought to its attention, with full access to records, resources and personnel, to enable it to discharge its functions properly.

The Audit Committee has oversight of the scope and results of the audit and its cost effectiveness, and the independence and objectivity of the external auditors.

In performing its functions, the Audit Committee met with the internal and external auditors, without the presence of Management, and reviewed the overall scope of both internal and external audits, and the assistance given by Management to the auditors.

The internal and external auditors have unrestricted access to the Audit Committee. The Audit Committee has full access to and cooperation of Management, and has full discretion to invite any director and executive officer to attend its meetings. Reasonable resources have been made available to the Audit Committee to enable it to discharge its functions properly.

The Audit Committee is satisfied with the independence and objectivity of the external auditors and recommends to the Board of directors, the nomination of the external auditors for re-appointment.

### Principle 12 Internal Controls

As part of the on-going process to ensure maintenance of a sound system of internal controls to safeguard shareholders' investments and the assets of the F&N Group, Management is continuing the strategic enterprise-wide risk management ("ERM") exercise commenced at the strategic level in 2002, by cascading ERM to the divisional/operational levels of the F&N Group, including its overseas operations. Key risks, control measures and management actions to be taken were identified, reviewed/confirmed and validated by Management.

The relevant reports, together with the F&N Group Risk Policy, were reviewed by the Audit Committee and endorsed by the Board. The Board is satisfied that Management is committed to ERM as an on-going process, and that

## REPORT ON CORPORATE GOVERNANCE for the year ended 30 September 2003

Management will continue to administer and monitor ERM at the strategic level, while simultaneously cascading ERM to the divisional, operational, departmental and process levels. Internal and/or external auditors will review the effectiveness of ERM.

### Principle 13 Internal Audit

The Internal Audit Department of the F&N Group is independent of the activities it audits. The Head of Internal Audit's primary line of reporting is to the Chairman of the Audit Committee.

The Audit Committee has reviewed and is satisfied with :

- the effectiveness of the F&N Group's material internal controls, including financial, operational and compliance controls, and risk management; and
- the adequacy of the Internal Audit function. The Internal Audit function is adequately resourced, and has appropriate standing within the Company and the F&N Group. The Head of Internal Audit is a certified public accountant.

In the opinion of the directors, F&N is in compliance with the Singapore Exchange's Best Practices Guide on Audit Committees.

### Principle 14 Communication with Shareholders

The Company and the F&N Group are in regular and effective communication with shareholders. The Board strives for timeliness and transparency, in its disclosures to shareholders and the public. Regular meetings and dialogues are held with investors, analysts, fund managers and the press. When material information is disseminated to SGX, such information is simultaneously posted on the Company's website at [www.fraserandneave.com](http://www.fraserandneave.com).

### Principle 15 Communication by Shareholders

F&N encourages shareholder participation at its annual general meetings, and allows shareholders the opportunity to communicate their views on various matters affecting F&N.

### Code of Business Conduct

In addition to compliance with the Code, F&N has adopted a Code of Business Conduct to regulate the standards and ethical conduct of the F&N Group, and that its directors, officers and employees are required to observe and maintain high standards of integrity, as are in compliance with the law and the regulations, and company policies.

### SGX Best Practices Guide on Dealings in Securities

In line with SGX's Best Practices Guide on Dealings in Securities, the F&N Group annually issues a circular to its directors, officers and employees that there must be no dealings in listed securities of the F&N Group, from one month before, until the release of the half-year and year-end financial results, and at any time they are in possession of unpublished material price sensitive information.

The Board is satisfied with the F&N Group's commitment to compliance with the Code, and on the adequacy of internal controls within the F&N Group.

## REPORT ON CORPORATE GOVERNANCE for the year ended 30 September 2003

### Particulars of Directors as at 30 September 2003

Name of Director	Academic & Professional Qualifications	Board Committees as Chairman or Member	Directorship: Date first appointed Date last re-elected	Board appointment whether executive or non-executive	Due for re-election at next AGM
Dr Michael Fam	BBM, PJG, DUBC, DUNU (1st Class), Hon LLD, Hon D Eng, Hon D Litt, Bachelor of Engineering with 1st Class Honours in Civil Engineering Fellow of the Institution of Civil Engineers, London Hon Fellow of the Institution of Engineers, Australia	Chairman : Executive Committee Member : Nominating Committee	16.08.1978 30.01.2003	Executive	Retirement pursuant to S153(6) Companies Act (Cap.50)
Mr Fock Siew Wah	Diploma, Chartered Institute of Bankers, London Fellow of the Singapore Institute of Directors	Member : Executive Committee Chairman : Audit Committee Chairman : Remuneration Committee Chairman : Nominating Committee	02.02.1996 30.01.2003	Independent Non-Executive	-
Mr Ho Tian Yee	Bachelor of Arts (Honours) Economics (CNA) Portsmouth University, UK Executive Program, Carnegie-Mellon University, USA	Member : Executive Committee Member : Remuneration Committee Member : Nominating Committee	01.12.1997 22.02.2001	Independent Non-Executive	Retirement by rotation
Mr Stephen Lee	MBA, Northwestern University, Evanston, USA	Member : Executive Committee Member : Audit Committee Member : Remuneration Committee Member : Nominating Committee	01.07.1997 30.01.2003	Independent Non-Executive	-

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### Particulars of Directors as at 30 September 2003

Name of Director	Academic & Professional Qualifications	Board Committees as Chairman or Member	Directorship: Date first appointed Date last re-elected	Board appointment whether executive or non-executive.	Due for re-election at next AGM
Mr Lee Ek Tieng	Bachelor of Engineering Diploma in Public Health Engineering Fellow, Institution of Civil Engineers, UK Fellow, Chartered Institution of Water & Environmental Management, UK Hon Fellow, Institution of Engineers, Singapore Member, Institution of Engineers, Malaysia	Member : Audit Committee Member : Remuneration Committee	08.01.2001 22.02.2001	Independent Non-Executive	Retirement pursuant to S153(6) Companies Act (Cap. 50)
Dr Lee Tih Shih	Bachelor of Science (Honours Program) (Northwestern) Doctor of Medicine (Yale) Master of Business Administration with Distinction (London)	Nil	01.12.1997 22.02.2001	Non-Independent Non-Executive	Retirement by rotation
Dr Han Cheng Fong	Bachelor of Science (Hons) (1st Class) in Physics, University of Singapore Master of Science, Doctor of Philosophy, University of Birmingham, UK	Nil	01.04.2002 30.01.2003	Executive	-
Mr Patrick Goh	Fellow of the Association of Chartered Certified Accountants of UK Associate of the Chartered Institute of Management Accountants of UK	Nil	15.11.2002 N.A.	Executive Alternate Director to Dr Han Cheng Fong	-

#### Notes :

- (1) Directors' shareholdings in the Company and its related Companies : please refer to page 69.
- (2) Directorships or Chairmanships in other listed companies and other major appointments, both present and over the preceding 3 years : please refer to pages 18 and 19.