

# Report on Corporate Governance

Pacific Healthcare Holdings Ltd. (the “Company”) is committed to maintaining a high standard of corporate governance within the Company and its subsidiaries (the “Group”) by complying with the Code of Corporate Governance 2005 (the “Code”). Pursuant to Rule 710 of the Listing Manual of the SGX-ST, this Report sets out the Company’s corporate governance practices with specific reference to the principles of the Code of Corporate Governance.

## I. BOARD MATTERS

### **Principle 1: Board’s Conduct of its Affairs**

The Board of Directors (the “Board”) has the overall responsibility for the management and corporate governance of the Group, including the Group’s overall strategic plans, key operational initiatives, annual budgets, investment proposals and financial reviews.

Matters which are specifically reserved for the Board’s decision include those involving interested person transactions, material acquisitions and disposal of assets, corporate or financial restructuring, share issuances, dividends and other returns to shareholders.

To facilitate effective management, certain functions of the Board have been delegated to various Board Committees, namely Audit, Nominating and Remuneration Committees. These committees function within clearly defined terms of references and operating procedures, which are reviewed on a regular basis. The effectiveness of each committee is also reviewed by the Board.

The Board conducts scheduled meetings on a regular basis. Adhoc meetings are convened when circumstances require. To ensure meetings are held regularly with maximum director participation, the Company’s Articles of Association allow for the telephone and video-conferencing meetings.

Prior to their appointments, newly appointed Directors are provided information on their duties as a director under the Singapore law. Directors are updated regularly on key accounting and regulatory changes. Where necessary, the Company arranges for presentations by external professionals, consultants and advisers on topics that would have an impact on the regulations, accounting standards and the implications of certain regulatory changes affecting the responsibilities of the Directors.

### **Principle 2: Board Composition and Balance**

The Board of Directors comprises the following members:

1.	Mr Sim Swee Yam, Peter	Non-Executive Chairman and Independent Director
2.	Dr Chong Lai Leong, William	Executive Director and Chief Executive Officer
3.	Dr Huang Hsiang Shui, Martin	Executive Director
4.	Dr Chu Aye Aye Han, Sandra	Non-Executive Director
5.	Mr Lee Kiam Hwee, Kelvin	Non-Executive and Independent Director
6.	Mr Goh Boon Kiat	Non-Executive and Independent Director

Key information regarding the Directors is disclosed in the “Board of Directors” section of the annual report.

Currently, the Board comprises 6 Directors, 3 of whom are Independent Directors. There is therefore a good balance between the Executive and Non-Executive Directors and a strong and independent element on the Board.

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Given the nature and scope of the Company's operations, the Board considers the present board size and number of committees facilitate effective decision-making and that no individual or small group of individuals dominates the Board's decision making process.

The attendance of the Directors at meetings of the Board, as well as the frequency of such meetings, are as follows:

Name	Board	Audit Committee	Nominating Committee	Remuneration Committee
	No. of Meetings held: 5	No. of Meetings held: 6	No. of Meetings held: 1	No. of Meetings held: 2
	No. of Meetings Attended	No. of Meetings Attended	No. of Meetings Attended	No. of Meetings Attended
Mr Sim Swee Yam, Peter	5	6	1	2
Mr Lee Kiam Hwee, Kelvin <sup>Note 1</sup>	3	4	-	1
Mr Goh Boon Kiat <sup>Note 1</sup>	3	4	-	1
Dr Chu Aye Aye Han, Sandra	4	NA	NA	NA
Dr Chong Lai Leong, William	5	NA	NA	NA
Dr Huang Hsiang Shui, Martin	2	NA	NA	NA

NA: Not Applicable

Note:

1. Mr Lee Kiam Hwee, Kelvin and Mr Goh Boon Kiat were appointed as Directors and members of the Audit, Nominating and Remuneration Committees on 2 April 2007.

### **Principle 3: Chairman and Chief Executive Officer**

The functions of the Chairman and that of the Chief Executive Officer in the Company are assumed by different individuals. The Chairman is Mr Sim Swee Yam, Peter who is a Non-Executive, Independent Director while the Chief Executive Officer, Dr Chong Lai Leong, William is an Executive Director.

The Chief Executive Officer is the most senior executive in the Company and bears executive responsibility for the Group's business, while the Chairman assumes responsibility for the management of the Board.

The Chairman ensures that Board Meetings are held when necessary and reviews and approves the Board Meeting agenda, in consultation with the Chief Executive Officer.

### **Principle 4: Board Membership**

The Board has established a Nominating Committee ("NC") which comprises 3 members, all of whom are Independent and Non-Executive Directors. The members of the NC are as follows:

- |    |                                   |  |
|----|-----------------------------------|--|
| 1. | Mr Sim Swee Yam, Peter (Chairman) | Non-Executive and Independent Director |
| 2. | Mr Lee Kiam Hwee, Kelvin          | Non-Executive and Independent Director |
| 3. | Mr Goh Boon Kiat                  | Non-Executive and Independent Director |

The NC is responsible for:

- (a) re-nomination of Directors having regard to the Director's contribution and performance;
- (b) determining on an annual basis whether or not a Director is independent; and
- (c) deciding whether or not a Director is able to and has been adequately carrying out his duties as a Director.

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New Directors are appointed by way of Board resolutions after the NC has reviewed and nominated them taking into consideration the qualification and experience of each candidate, his/her ability to increase the effectiveness of the Board and to add value to the Group's business in line with its strategic objectives.

The NC recommends all appointment and retirement of Directors. At each Annual General Meeting ("AGM"), not less than one third of the Directors for the time being (being those who have been longest in office since their appointment or re-election) are required to retire from office by rotation. A retiring Director is eligible for re-election by the shareholders at the AGM. All newly appointed Directors during the year will hold office only until the next AGM and will be eligible for re-election. In evaluating the Director's contribution and performance for the purpose of re-nomination, factors such as attendance, preparedness, participation and candour are taken into consideration.

## **Principle 5: Board Performance**

Subject to the approval of the Board, the NC will decide on how the Board's performance is to be evaluated and propose objective performance criteria which address how the Board has enhanced long-term shareholders' value. The performance evaluation will also include consideration of our share price performance vis-à-vis the Straits Times Index and a benchmark index of its industry peers. The Board also implemented a process to be carried out by our NC for assessing the effectiveness of the Board as a whole. Each member of the NC shall abstain from voting on any resolution in respect of the assessment of his performance of re-nomination as director.

## **Principle 6 : Access to Information**

The Company's Management provides the Board with periodic updates covering operational performance and financial results, market and business development and other important and relevant information.

The Company or the Board will seek the appropriate independent and professional advice as and when the Directors, whether as a group or individually, need independent professional advice.

Together with other Management staff of the Company, the Company Secretary ensures that the Company complies with the requirements of the Companies Act and other rules and regulations that are applicable to the Company.

## **II. REMUNERATION MATTERS**

### **Principle 7: Procedures for Developing Remuneration Policies**

The Board has established a Remuneration Committee ("RC") which comprises 3 members, all of whom are Independent and Non-Executive Directors. The members of the RC are as follows:

- |    |                             |  |
|----|-----------------------------|--|
| 1. | Mr Goh Boon Kiat (Chairman) | Non-Executive and Independent Director |
| 2. | Mr Sim Swee Yam, Peter      | Non-Executive and Independent Director |
| 3. | Mr Lee Kiam Hwee, Kelvin    | Non-Executive and Independent Director |

The RC will recommend to the Board a framework of remuneration for the Directors, Chief Executive Officer and all staff whose annual remuneration exceeds \$250,000. The RC will also make recommendations to the Board on the remuneration package of the Chief Executive Officer and Executive Directors. The remuneration and benefits-in-kind of all staff whose annual remuneration exceeds \$250,000 shall be reviewed by the RC.

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## Principle 8: Level and Mix of Remuneration

In setting the remuneration packages of the Executive Directors, the Company takes into consideration the remuneration and employment conditions and makes a comparative study of the packages of Executive Directors in comparable companies/industries as well as the Group's relative performance.

Non-Executive Directors are paid a basic fee. The Chairman of each committee is compensated for his additional responsibilities. Such fees are approved by the shareholders of the Company as a quarterly payment in arrears at the AGM of the Company.

## Principle 9: Disclosure on Remuneration

- (i) The breakdown of remuneration of the Directors for the year ended 31 December 2007 are as follows:

Name	Remuneration Band	Salary (%)	Bonus (%)	Directors Fee (%)	Total (%)
Mr Sim Swee Yam, Peter	C	NA	NA	100	100
Mr Lee Kiam Hwee, Kelvin <sup>Note 1</sup>	C	NA	NA	100	100
Mr Goh Boon Kiat <sup>Note 1</sup>	C	NA	NA	100	100
Dr Chu Aye Aye Han, Sandra <sup>Note 2</sup>	C	96.5	3.5	0	100
Dr Chong Lai Leong, William	A	92.3	7.7	0	100
Dr Huang Hsiang Shui, Martin	A	94.9	5.1	0	100

### Note

- Mr Lee Kiam Hwee, Kelvin and Mr Goh Boon Kiat were appointed on 2 April 2007.
- Dr Chu Aye Aye Han, Sandra ceased to be the Chief Operating Officer of the Company with effect from 29 February 2008.

Remuneration Amounts	Remuneration Band
\$500,000 and above	A
\$250,000 to \$499,000	B
Below \$250,000	C

- (ii) Remuneration received by executive officers of the Company

The following key executives fall within the remuneration band of below \$250,000:

- Alice Scott
- Foo Lily (appointed on 16 May 2007)
- Kristianus Setyawan
- Sim Yu Xiong, Vitters (resigned on 31 May 2007)
- Tan Cheng Ling, Caroline
- Theresa Tan Hwee Geok

There are no employees who are immediate family members of a Director and whose remuneration exceeded \$150,000 per annum for the financial year ended 31 December 2007.

The Company has an employee share option scheme known as the Pacific Healthcare Employee Share Option Scheme. More information on the Pacific Healthcare Employee Share Option Scheme is set out in the Directors' Report.

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## III. ACCOUNTABILITY AND AUDIT

### Principle 10: Accountability

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

The financial performance and annual reports are announced or issued within the mandatory period and are available on the Company's website. After the results are announced, the Company holds briefing with analysts and investors.

Management provides the Board with periodic updates covering operational performance, financial results, marketing and business development and other important and relevant information.

Other ways in which information is disseminated to shareholders are further disclosed under Principles 14 and 15.

### Principle 11: Audit Committee

The Audit Committee ("AC") comprises 3 members, all of whom are Independent and Non-Executive Directors. The members of the AC are as follows:

- |    |                                     |  |
|----|-------------------------------------|--|
| 1. | Mr Lee Kiam Hwee, Kelvin (Chairman) | Non-Executive and Independent Director |
| 2. | Mr Sim Swee Yam, Peter              | Non-Executive and Independent Director |
| 3. | Mr Goh Boon Kiat                    | Non-Executive and Independent Director |

The AC meets periodically to perform the following functions:

- (a) to review with the external auditors the audit plan, and the results of the external auditors' examination and evaluation of the Company's system of internal controls;
- (b) to review the consolidated financial statements and balance sheets and profit and loss accounts, and the external auditors' report on those financial statements, before submission to the Board of Directors for approval;
- (c) to review the co-operation given by Management to the external auditors;
- (d) to consider the appointment and re-appointment of the external auditors;
- (e) to review and approve interested person transactions; and
- (f) to generally undertake such other functions and duties as may be required by statute or the SGX-ST Listing Manual, and by such amendments made thereto from time to time.

Apart from the duties listed above, the AC shall commission and review the findings of internal investigations into matters where there is any suspected fraud or irregularity, or failure of internal controls or infringement of any Singapore law, rule or regulation which has or is likely to have a material impact on the Group's operating results and/or financial position. Each member of the AC will abstain from voting in respect of matters in which he is interested.

The AC has reviewed the independence of the external auditors including the volume of non-audit services supplied by them and is satisfied with their position as independent external auditors.

The total amount of non-audit fee paid to the external auditors during the year is \$52,000.

The Company has in place a whistle-blowing policy which provides well-defined and accessible channels in the Group through which employees may raise concerns about improper conduct within the Group.

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## **Principle 12: Internal Controls**

The Board recognises that no internal control system will preclude all errors and irregularities. The system is designed to manage rather than to eliminate the risk of failure to achieve business objectives. The controls are to provide reasonable, but not absolute, assurance to safeguard shareholders' investments and the Group's assets. The Board reviews the effectiveness of all internal controls, including operational controls.

## **Principle 13: Internal Audit**

The scope of the internal audit is:

- (a) to review the effectiveness of the Group's material internal controls;
- (b) to provide assurance that key business and operational risks are identified and managed;
- (c) to determine that internal controls are in place and functioning as intended; and
- (d) to evaluate that operations are conducted in an effective and efficient manner

The internal auditors report to the Chairman of the AC on any material weaknesses and risks identified in the course of the audit. These will also be communicated to Management. Management will accordingly update the AC on the status of the remedial action plans. To ensure the adequacy of the internal audit function, the AC reviews the internal auditor's scope of work on an annual basis.

The Company has outsourced its internal audit function to ensure independence of the internal audit function as well as access to experienced professionals and best practices in the industry.

## **IV. COMMUNICATIONS WITH SHAREHOLDERS**

### **Principle 14: Communications with Shareholders**

### **Principle 15: Greater Shareholder Participation**

Shareholders, investors and analysts are kept informed of the major developments of the Company through various means of communication as follows:

- Results and annual reports are announced or issued within the mandatory period.
- Analysts' meeting after announcement of Company's results.
- Price sensitive information, significant transactions or matters are communicated to shareholders via SGXNET.
- Company's annual general meetings.
- Company's website at [www.pachealthholdings.com](http://www.pachealthholdings.com)

All shareholders of the Company receive the annual report and notice of annual general meeting ("AGM"). At AGMs, shareholders are given the opportunity to air their views and ask Directors or Management questions regarding the Company.

The Company's Articles of Association allow a shareholder of the Company to appoint one or two proxies to attend and vote on behalf of the shareholder.

At AGMs, separate resolutions are set out on distinct issues, such as proposed Directors' fees, for approval by shareholders. Besides the external auditors, the chairmen of all Board committees are normally present and available to address queries from shareholders.

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## **V. INTERESTED PERSON TRANSACTIONS (“IPT”)**

The Audit Committee is satisfied that the review procedures for IPTs and the reviews to be made periodically by the Audit Committee in relation thereto are adequate to ensure that the IPTs will be transacted on normal terms and will not be prejudicial to the interests of the Company and its minority shareholders.

There were no IPTs required for disclosure according to Rule 907 of the SGX-ST Listing Manual in respect of IPT for the financial year ended 31 December 2007.

## **VI. DEALINGS IN SECURITIES**

In line with Chapter 12, Rule 1207(18) of the Listing Manual of the SGX-ST on dealing in securities, the Company has in place a policy prohibiting share dealings by Directors and employees of the Company during the period commencing one month before the announcement of the Company’s financial statements for the half year and the financial year, as the case may be, and ending on the date of the announcement of the relevant results. This has been made known to Directors, officers and staff of the Company and the Group. They are also reminded to observe the insider trading laws at all times even when dealing in securities within permitted trading period.

## **VII. MATERIAL CONTRACT**

There were no other material contracts of the Group or its subsidiaries involving the interest of any Director or controlling shareholder subsisting at the end of the financial year ended 31 December 2007.

## **VIII. RISK MANAGEMENT**

Management will regularly review the Group’s business and operational activities to identify areas of significant business risks as well as appropriate measures to control and mitigate these risks within the Group’s policies and strategies.