

# CORPORATE GOVERNANCE

The Company is committed to maintain a high standard of corporate governance within the Group in order to protect the interests of its shareholders. The Board has adopted the principles and guidelines set out in the Code of Corporate Governance 2005 (the "Code") and in compliance with the Listing Manual of the Singapore Exchange Securities Trading Limited ("SGX-ST"). This Statement describes the Company's corporate governance processes and activities with specific reference to the Code and deviations from the Code are explained. For effective corporate governance, the Company has in place various self-regulatory and monitoring mechanisms as follows:

## Board of Directors

### The Board comprises:

Low Han Cheong (Chairman)  
Law Peng Kwee (Managing Director)  
Kevin Law Cher Chuan (Executive Director)  
Lim Ho Seng (Independent Non-Executive Director)  
Ng Cher Yan (Independent Non-Executive Director)  
Lau Hwee Beng (Non-Executive Director)

Mr Law Peng Kwee is the nephew of Mr Low Han Cheong.  
Mr Kevin Law Cher Chuan is the son of Mr Law Peng Kwee.  
Dr Lau Hwee Beng is the nephew of Mr Low Han Cheong.

The Board supervises the overall management of the business and affairs of the Group. Apart from its statutory responsibilities, the Board reviews and approves the Group's strategic plans, key operational initiatives, major investments, disposals and funding decisions and interested person transactions. It also identifies principal risks of the Group's business and implements appropriate systems to manage those risks, reviews the Group's financial performance, approves major expenditure and significant financing matters.

All newly appointed Directors are given briefings by Management on the history and business operations of the Group. The Company will, if necessary, organise briefing sessions or circulate memoranda to Directors to enable them to keep pace with regulatory changes, where such changes have a material bearing on the Group.

The Board has separate and independent access to Senior Management of the Company and the request for information from the Board is dealt with promptly by Management. The Board is informed of all material events and transactions as and when they occur.

The Directors are from diverse backgrounds and collectively bring with them a wide range of experience in industry, accounting, finance, business and management. The profiles of the Directors are set out on pages 6 and 7 of the Annual Report.

The Board holds at least four meetings every year. Ad hoc meetings are convened when circumstances require. The attendance of the Directors at meetings of the Board and Board Committees, as well as the frequency of such meetings, is disclosed in this Report.

The roles of the Chairman and Managing Director are separated. The Managing Director is responsible for the daily operations of the Group, whereas the Chairman ensures that the Board meetings are held when necessary and set the Board meeting agendas in consultation with the Managing Director and ensures that Board members are provided with complete, adequate and timely information.

# CORPORATE GOVERNANCE

The Board comprises six Directors, two of whom are Non-Executive and Independent of Management. This enables the Board to exercise objective judgement on the business, directions and affairs of the Group.

The independence of each Director is reviewed annually by the Nominating Committee.

As a result of its review of the independence of the Directors for the financial year ended 30 June 2009, the NC noted that one-third of the Board members are Independent Directors, and that no individual or small group of individuals dominates the Board's decision-making process.

## **Access to Information**

The Company recognises the importance of providing the Board with timely and complete information prior to its meetings and as and when the need arises.

In order to ensure that the Board is able to fulfill its responsibilities, the Management provides the Board with quarterly management reports, forecasts/budgets, financial statements and other relevant information of the Group. In addition, the Management provides adequate and timely information to the Board on affairs and issues that require the Board's decision.

The Board has separate and independent access to Senior Management and the Company Secretary at all times.

The Company Secretary attends all Board and Committee meetings and is responsible for adherence to Board procedures. The Company Secretary, together with the Management, is also responsible for ensuring the Group's compliance with the Companies Act, Cap. 50, the SGX-ST Listing Manual and all relevant rules and regulations which are applicable to the Group.

Should Directors, whether as a group or individually, need independent professional advice to fulfill their duties, such advice will be obtained from a professional firm of the Director's choice and the cost of such professional advice will be borne by the Company.

## **Accountability**

As mentioned earlier, the Management furnishes the Board with timely quarterly management reports and financial statements of the Group. The Board in turn is accountable to the shareholders and is obliged to provide the shareholders with timely and fair disclosure of material information.

## **Board Committees**

To assist the Board in the execution of its duties, the Board has delegated specific functions to the various committees.

## **Nominating Committee (NC)**

### **Board Membership**

The NC comprises Mr Lim Ho Seng (Chairman of the NC), Mr Ng Cher Yan and Mr Law Peng Kwee. The majority of the NC members and the Chairman of the NC are Independent Non-Executive Directors.

The NC regulated by a set of written Terms of Reference, was set up to perform the following functions:

- (i) Identify candidates and review all nominations for new appointment and re-appointment of Directors;
- (ii) Determine the criteria for identifying candidates and reviewing nominations for new appointments;
- (iii) Evaluate the effectiveness and performance of the Board as a whole and the contribution of individual Directors to the effectiveness of the Board;
- (iv) Review and determine the independence of Directors annually;
- (v) Decide whether a Director is able to and has been adequately carrying out his duties as a Director of the Company, particularly when the Director has multiple board representations; and
- (vi) Review and recommend Directors who will be retiring by rotation once every three years, as well as those retiring pursuant to Section 153(6) of the Companies' Act, to be re-elected and re-appointed respectively at each Annual General Meeting.

In selecting potential new Directors, the NC will seek to identify the competencies required to enable the Board to fulfill its responsibilities. In doing so, the NC will have regard to the results of the annual appraisal of the Board's performance. The NC may engage consultants to undertake research on, or assess, candidates for new positions on the Board, or to engage such other independent experts as it considers necessary to carry out its duties and responsibilities.

Upon the review and recommendation by the NC for the appointment of Directors, the Board will approve the appointment of new Directors.

In accordance with the Company's Articles of Associations, each Director is required to retire at least once in every three years by rotation at the Annual General Meeting. The retiring Directors are eligible to offer themselves for re-election.

In accordance with Section 153(6) of the Companies' Act, a Director over 70 years of age is required to vacate office every year. The Director is eligible to offer himself for re-appointment.

The NC has assessed the independence of the Non-Executive Directors, namely Mr Lim Ho Seng and Mr Ng Cher Yan and is satisfied that there are no relationships which would deem them not to be independent.

The NC had recommended the re-election of Mr Lim Ho Seng and the re-appointment of Mr Low Han Cheong as Directors of the Company at the forthcoming Annual General Meeting. The Board had accepted the NC's recommendation and the two Directors would be offering themselves for re-election or re-appointment at the forthcoming Annual General Meeting.

## **Board Performance**

On an annual basis, the NC will assess the effectiveness and performance of the Board as a whole and of each individual Director in consultation with the Chairman of the Company based on assessment parameters adopted by the Board. The assessment parameters include objective performance criteria, which allow comparison with the Company's peers, attendance record at meetings of the Board and Board Committees, contribution and participation at meetings and ability to make informed decisions. The review of Board performance also involves evaluation of the Board on the level of supervision and oversight by Executive Directors.

## Remuneration Committee (RC)

The RC comprises Mr Ng Cher Yan (Chairman of the RC), Mr Lim Ho Seng and Dr Lau Hwee Beng.

The majority of the RC members and the Chairman of the RC are Independent Non-Executive Directors. The RC has access to external professional advice on executive compensation and remuneration matters, if and when required.

The RC is guided by its Terms of Reference, which sets out its responsibilities. The RC reviews the existing framework of remuneration for Directors serving on the Board and Board Committees. In reviewing the remuneration of Directors, the RC considers the market conditions, pay conditions within the industry as well as the Company's performance and the performance of Directors.

The RC also reviews and recommends to the Board for approval all service contracts of the Executive Directors (including performance related elements of remuneration), remuneration of employees related to the Directors and substantial shareholders and any long-term incentive schemes, which may be set up from time to time.

The RC also ensures that Directors' fees for the Non-Executive Directors takes into account of Directors' involvement in committees of the Board.

A breakdown, showing the level and mix of the remuneration of the Directors and all the Key Executives for FY2009, is set out on page 20 of this Annual Report.

The Company does not have any employee share option scheme.

## Audit Committee (AC)

The AC comprises Mr Lim Ho Seng (Chairman of the AC), Mr Ng Cher Yan and Dr Lau Hwee Beng. The majority of the AC members and the Chairman of the AC are Independent Non-Executive Directors.

The members of the AC collectively have many years of corporate experience in senior management positions and are knowledgeable in the field of accounting, auditing, banking and finance industries and have sufficient financial management expertise to discharge the AC's functions.

The AC, regulated by a set of written Terms of Reference, discharges the following delegated key functions and responsibilities:

- (i) Review financial results;
- (ii) Review, internal and external audit plans, including internal audit procedures and the nature and scope of the audit before the audit commences, the Internal Auditors' evaluation of the Company's system of internal controls, the External and Internal Auditors' audit reports and management letter issued by the External Auditors (if any) and Management's response to the letter;
- (iii) Review interested person transactions in accordance with the requirements of the Listing Rules of the SGX-ST;
- (iv) Review significant financial reporting issues and judgements so as to ensure the integrity of the financial statements of the Company and the Group before their submission to the Board, together with the External Auditors' report;
- (v) Review the announcements of quarterly and full-year results before they are submitted to the Board for approval to release to the SGX-ST;
- (vi) Review and recommend the re-appointment of External Auditors and review of their audit fees and terms of engagement;

- (vii) Review annually all non-audit services provided by the External Auditors to determine if the provision of such services would affect the independence of the External Auditors; and
- (viii) Consider other matters as requested by the Board.

The AC is also tasked to conduct annual reviews of the independence of External Auditors to satisfy itself that the nature and volume of non-audit services will not prejudice the independence and objectivity of the Auditors before confirming their re-nomination.

The AC has reviewed the non-audit services amounted to \$30,000 provided by the External Auditors, Ernst & Young LLP, and is of the opinion that the provision of such services does not affect their independence. The AC has recommended the re-appointment of Ernst & Young LLP as External Auditors at the forthcoming Annual General Meeting.

Additionally, the AC also reviews legal or regulatory changes that may have a material impact on the financial statements.

The AC has the express power to investigate into any matters within its Terms of Reference, and has full access to Management. It has full discretion to invite any Executive Director or Executive Officer to attend its meetings and has reasonable resources to enable it to discharge its function properly.

Annually, and as and when required, the AC meets with the External Auditors and the Internal Auditors, without the presence of Management.

The AC has put in place a policy, whereby staff of the Group may raise concerns about possible improprieties in matters of financial reporting, fraudulent acts and other matters and ensure that arrangements are in place for independent investigations of such matters and the appropriate follow up actions.

The attendance record of the AC is set out on page 20 of this Annual Report.

### **Internal Controls**

The Company has instituted a system of internal controls for the Group. While no system can provide absolute assurance against material loss or financial misstatement, the Group's internal financial controls are designed to provide reasonable assurance that assets are safeguarded, that proper accounting records are maintained, and that financial information used within the business and for publication is reliable. In designing these controls, the Management has taken into consideration to the risks to which the business is exposed, the likelihood of such risks occurring and the costs of protecting against them.

The Board has adopted a set of internal controls which sets out approval limits for expenditure, investments and divestments and cheque signatory arrangements. Approval sub-limits are also provided at management levels to facilitate operational efficiency.

The AC also reviews the effectiveness of the Company's material internal controls, including financial, operational and compliance controls, and risk management with the Internal Auditors. The Internal Auditors report to the Chairman of the Audit Committee at least annually.

The Board reviews the effectiveness of the Group's system of internal controls in the light of key business and financial risks affecting its business.

# CORPORATE GOVERNANCE

The Board is satisfied that based on the information furnished to it and from its own observations, the internal controls and risk management processes are satisfactory for the nature and size of the Group's operations and business.

## **Internal Audit**

The Company has out-sourced its internal audit function to Stone Forest Consulting Pte Ltd ("Stone Forest"). Members of Stone Forest are suitably qualified and have the relevant experience.

The AC is satisfied that the Internal Auditors have met the standards set by internationally recognised professional bodies including the Standards for the Professional Practice of Internal Auditing set by The Institute of Internal Auditors.

The Internal Auditors report directly to the AC on internal audit matters, and to Senior Management on administrative matters. The AC reviews the internal audit reports and activities periodically and the effectiveness of the Company's internal audit function. The AC also reviews and approves the annual internal audit plan. The AC is of the view that the internal audit function is adequately resourced to perform its functions and has, to the best of its ability, maintained its independence from the activities that it audits.

## **Communication With Shareholders**

The Company does not practise selective disclosures. Financial results and other material information are released to shareholders and the investing community on a timely basis in accordance with the requirements of the Listing Rules of the SGX-ST via the SGXNET system.

All shareholders of the Company receive copies of the Annual Report and Notice of the Annual General Meeting annually. Notice of the Annual General Meeting is also advertised in the newspapers and made available on the SGX-ST website.

The Company's main forum for dialogue with shareholders takes place at its Annual General Meeting whereat members of the Board, Chairmen of the Audit, Remuneration, and Nominating Committees, Senior Management, and the External Auditors are in attendance to answer to any queries raised by the shareholders. At the Annual General Meeting, shareholders are given the opportunity to voice their views and ask questions regarding the Company.

Resolutions to be passed at general meetings are always separate and distinct in terms of issue so that shareholders are better able to exercise their right to approve or deny the issue or motion.

## **Dealing In Securities**

The Company has complied with its Best Practices Guide on Securities Transactions which states that Officers of the Company should not deal in the Company's securities on short-term considerations and during the period commencing two weeks before the announcements for each of the first three quarters of its financial year end and one month before the announcement of the Company's full year financial statements.

## Interested Person Transactions

The Company has adopted an internal policy governing procedures for the identification, approval and monitoring of interested person transactions. All interested person transactions are subject to review by the AC to ensure that they are carried out on normal commercial terms or entered into on an arm's length basis.

The Company also adopts the materiality thresholds imposed under Chapter 9 for the Company to announce such transactions, or to announce and convene separate general meetings as and when potential transactions with the Interested Persons arise, to seek shareholders, prior approval for those transactions. The total value of interested person transactions for financial year ended 30 June 2009 was \$438,000.

## Risk Management Policies & Processes

The main risks arising from the Group's operations are interest rate risk, credit risk, foreign exchange risk and the risk of stock obsolescence. The Board reviews and agrees on policies for managing each of these risks.

Beside the above-mentioned risks, the Group also considers the following as major vulnerable factors to the Group:

(a) Pace of infrastructure development in the region

As most of the Group's sales of industrial hardware and machinery spares are to customers engaged in the construction, mining and logging industries, the Group's turnover may be adversely affected by any government restrictions or other economic factors which may delay the pace of infrastructure development.

(b) Political risks

The Group derives approximately 80% of its sales from countries outside Singapore, including certain Southeast Asian countries where the political and socio-economic situation may be undergoing a transitional phase of uncertainty and this may have an adverse impact on its sales revenue.

## Material Contracts

No material contracts were entered between the Company or any of its subsidiaries with any Director or controlling shareholders during the financial year ended 30 June 2009.

# CORPORATE GOVERNANCE

## Directors' Attendance at Board and Board Committee Meetings for FY2009

Name of Director	Board Meeting		Audit Committee Meeting		Nominating Committee Meeting		Remuneration Committee Meeting	
	Number Held	Attendance	Number Held	Attendance	Number Held	Attendance	Number Held	Attendance
Low Han Cheong	5	5	-	-	-	-	-	-
Law Peng Kwee	5	5	-	-	1	1	-	-
Kevin Law Cher Chuan	5	5	-	-	-	-	-	-
Lim Ho Seng	5	5	4	4	1	1	3	3
Aw Kim Chen*	3	0	2	1	1	0	2	0
Ng Cher Yan	5	5	4	4	1	1	3	3
Lau Hwee Beng#	5	5	1	1	-	-	1	1

\*Mr Aw Kim Chen passed away in January 2009.

# Dr Lau Hwee Beng was appointed as a member of the Audit and Remuneration Committees in March 2009.

## Disclosure of Remuneration

Remuneration of Directors for FY2009 are as follows:

	Name	Directors' fee	Salary	Bonus	Profit sharing	Total
\$750,000 to below \$1,000,000	Law Peng Kwee	-	34%	7%	59%	100%
\$500,000 to below \$750,000	Low Han Cheong	-	43%	10%	47%	100%
\$250,000 to below \$500,000	Kevin Law Cher Chuan	3%	58%	39%	-	100%
Below \$250,000	Lim Ho Seng	100%	-	-	-	100%
	Aw Kim Chen	100%	-	-	-	100%
	Ng Cher Yan	100%	-	-	-	100%
	Lau Hwee Beng	100%	-	-	-	100%

Remuneration Band of all Key Executives of the Company who are not Directors of the Company for FY2009 are as follows:

	Name	Directors' fee	Salary	Bonus	Secretary's fee	Total
\$250,000 to below \$500,000	Loy Soo Chew	4%	60%	36%	-	100%
Below \$250,000	David Tan Wee Kok	1%	74%	24%	1%	100%
	Florence Low Fei Lin	-	74%	26%	-	100%
	Donald Low Shao Wei	5%	67%	28%	-	100%
	Allan Ang Gim Hoon	3%	68%	29%	-	100%
	Low Yeow Tuan	-	73%	27%	-	100%
	Sam Teo Kia Tiong	-	71%	29%	-	100%
	Raymond Tan Gim Hin	-	89%	11%	-	100%

The profiles of the Key Executives of the Company are set out on page 8 of the Annual Report.

No other employee of the Group who is an immediate family member of a Director or the Managing Director received remuneration exceeding \$150,000 during the financial year ended 30 June 2009, except for Mr Donald Low Shao Wei who is the son of the Chairman and a Key Executive of the Company.