

# STATEMENT OF CORPORATE GOVERNANCE

Lereno Bio-Chem Ltd (the “Company”) is committed to ensuring and maintaining a high standard of corporate governance within the Group to ensure transparency and protection of the interests of the Company’s shareholders. This report describes the main corporate governance framework and practices of the Company with specific reference made to each of the principles of the Code of Corporate Governance 2005 (the “Code”). The Company will continue to enhance its systems and corporate governance processes to ensure compliance with the Code.

## BOARD MATTERS

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

The Board of Directors (the “Board”) comprises 2 Executive and 7 Non-Executive Directors having the appropriate mix of core competencies and diversity of experience to direct and lead the Company to protect and enhance long-term shareholders’ value. As at the date of this report, the Board comprises the following members:

|  |   |
|--|---|
| Tan Sri Dato’ Kamaruzzaman Bin Shariff | (Non-Executive Chairman and Independent Director) |
| Ong Puay Koon                          | (Managing Director and Chief Executive Officer)   |
| Ong Choon Lui                          | (Executive Director)                              |
| Goh Yeow Tin                           | (Non-Executive and Independent Director)          |
| Jiro Suzuki                            | (Non-Executive and Independent Director)          |
| Kong Mun Kwong                         | (Non-Executive Director)                          |
| Peter John Farrar                      | (Non-Executive and Independent Director)          |
| Wong Heang Fine                        | (Non-Executive and Independent Director)          |
| Yap Boh Pin                            | (Non-Executive and Independent Director)          |

Mr Kong Mun Kwong (Non-Executive Director) has ceased to be the Executive Director and Deputy Chief Executive Officer on 7 April 2009 due to his personal commitments.

The Board oversees the management of the Company. It sets the corporate strategies of the Group and sets directions and goals for the management. It supervises the management and monitors performance of these goals to enhance shareholders’ value. The Board is responsible for the overall corporate governance of the Group.

The primary functions of the Board, apart from its statutory responsibilities, are:

- evaluating and approving corporate policies, budgets and strategic direction of the Group;
- monitoring and reviewing the financial performance including approval of all financial results announcements;
- approving annual results and accounts;
- approving and authorising of major investment transactions such as fund raising exercises;
- authorising of material acquisitions and disposal of non-core assets and investments;
- assuming responsibility for corporate governance;
- establishing a framework of prudent and effective controls which enables risk to be assessed and managed; and
- succession planning and management development.

Newly-appointed Directors are oriented on the Group’s strategic direction, business operations and governance practices upon their appointment. Existing Directors of the Company are encouraged to participate in seminars and/or discussion groups to be kept abreast of latest developments, such as relevant changes to statutes and regulatory requirements applicable to the Group.

To facilitate effective management, the Board has formed Board Committees namely the Audit Committee, the Nominating Committee and the Remuneration Committee to assist in carrying out and discharging its duties and responsibilities efficiently and effectively.

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These Board Committees function within clearly defined terms of reference and operating procedures, which are reviewed on a regular basis. The effectiveness of each Board Committee is also constantly reviewed by the Board.

The Company has adopted internal guidelines setting forth matters that require Board approval. The types of material transactions that require Board approval under such guidelines include those listed below: -

- (a) approval of results announcements;
- (b) approval of annual financial statements;
- (c) declaration of interim dividends and proposal of final dividends;
- (d) convening of shareholders' meetings;
- (e) approval of corporate strategy;
- (f) authorization of merger and acquisition transactions; and
- (g) authorization of major transactions.

The Board meets regularly, at least four times a year and as warranted by circumstances to deliberate on urgent substantive matters or when required to address any specific significant matters that may arise from time to time. The Articles of Association of the Company permit the Board to hold its meetings via telephone conference and other electronic or telegraphic means. The attendance of Directors at meetings of the Board and the meetings of the various Board Committees as well as the frequency of meetings during the financial year are set out in the following Table 1:-

**Table 1**  
**Directors' attendance at Board and Board Committee Meetings held for the financial year ended 31 March 2009**

|  | BOARD                    | AUDIT COMMITTEE | REMUNERATION COMMITTEE | NOMINATING COMMITTEE |
|--|--------------------------|-----------------|------------------------|----------------------|
| Name of Director                       | No. of Meetings attended |                 |                        |                      |
| Tan Sri Dato' Kamaruzzaman Bin Shariff | 4 out of 4               | -               | 2 out of 2             | 1 out of 1           |
| Ong Puay Koon                          | 4 out of 4               | -               | -                      | -                    |
| Ong Choon Lui                          | 4 out of 4               | -               | -                      | -                    |
| Goh Yeow Tin                           | 4 out of 4               | -               | -                      | -                    |
| Jiro Suzuki                            | 3 out of 4               | -               | 1 out of 2             | -                    |
| Kong Mun Kwong                         | 4 out of 4               | -               | -                      | -                    |
| Peter John Farrar                      | 4 out of 4               | 4 out of 4      | -                      | 1 out of 1           |
| Wong Heang Fine                        | 2 out of 4               | 2 out of 4      | 2 out of 2             | -                    |
| Yap Boh Pin                            | 4 out of 4               | 4 out of 4      | -                      | 1 out of 1           |

## Principle 2: Board Composition and Guidance

The Board now comprises 2 Executive Directors and 7 Non-Executive Directors (of which 6 are Independent Directors).

The criterion for independence is based on the definition given in the Code. The Board considers an "independent" director as one who has no relationship with the Company, its related companies or officers that could interfere, or be reasonably perceived to interfere, with the exercise of the Director's independent business judgment of the conduct of the Group's affairs with a view to the best interests of the Group. With the majority of our Directors being non-executive and independent of management, the Board is able to exercise objective judgment on corporate affairs and no individual or small group of individuals is able to dominate the Board's decision making. The independence of each Director is reviewed annually by the Nominating Committee (the "NC"), which confirms that the Independent Directors make up at least one-third of the Board.

The Board members possess wide ranging experiences in the areas of strategic planning, business and management, and accounting and finance for the industry which the Group operates in. The profiles of the Board members are set out on pages 4 to 7 of this annual report.

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The composition of the Board will be reviewed on an annual basis by the NC to ensure that the Board has the appropriate mix of expertise and experience, and collectively possess the necessary core competencies for effective functioning and informed decision-making. The NC opined that the current size of the Board is appropriate, taking into account the nature and scope of the Group's operations.

The Non-Executive Directors constructively challenge and help develop proposals on strategy and also review the performance of management in meeting agreed goals and objectives, and monitor the reporting of performance.

Particulars of interests of Directors who held office at the end of the financial year in shares, debentures, warrants and share awards and/or share options in the Company and in related corporations (other than wholly-owned subsidiaries) are set out in the Directors' Report on pages 25 to 28 of this annual report.

### Principle 3: Chairman and Chief Executive Officer

The Company believes that a clear division of responsibilities between the Non-Executive Chairman and Chief Executive Officer ("CEO") ensures proper balance of power, increased accountability and greater capacity of the Board for independent decision-making. The positions of the Non-Executive Chairman and CEO are held by Tan Sri Dato' Kamaruzzaman Bin Shariff and Mr Ong Puay Koon respectively and they are not related to each other.

The Chairman's duties and responsibilities include:-

- scheduling meetings to enable the Board to perform its duties responsibly;
- preparing meeting agenda in consultation with the CEO;
- ensuring the proper conduct of meetings and accurate documentation of the proceedings;
- ensuring the smooth and timely flow of information between the Board and management and between the Company and its shareholders;
- facilitating the effective contribution of Non-Executive Directors;
- promoting high standards of corporate governance; and
- ensuring compliance with internal policies and guidelines of the Company.

The CEO's duties and responsibilities include:-

- improving, developing, extending, maintaining, advising and promoting the Company's and the Group's businesses to protect and further the reputation, interest and success of the Company and the Group;
- undertaking such duties and exercising such powers in relation to the Company, the Group and their businesses as the Board shall from time to time properly assign to or vest in him in his capacity as CEO and all other matters incidental to the same; and
- overseeing, formulating and implementing corporate strategies and directions for the affairs of the Group.

### Principle 4: Board Membership

The Board has established a NC and it currently comprises the following:-

|  |   |
|--|---|
| Yap Boh Pin                            | (Chairman of NC and Non-Executive and Independent Director) |
| Peter John Farrar                      | (Member and Non-Executive and Independent Director)         |
| Tan Sri Dato' Kamaruzzaman Bin Shariff | (Member and Non-Executive and Independent Director)         |

The Board viewed that the members of the NC have sufficient expertise and experience to discharge its responsibilities properly.

The NC is established for the purpose of ensuring that there is a formal and transparent process for all board appointments. It has adopted written terms of reference defining its membership, administration and duties.

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The duties and responsibilities of the NC as set out in the Terms of Reference approved by the Board include the following:-

- to make recommendations to the Board on all Board appointments and re-appointments;
- to review the Board structure, size and composition and make recommendations to the Board with regards to any necessary adjustments;
- to make recommendations on re-nomination of any Director having regard to each Director's contribution and performance;
- to determine annually whether or not a Director is independent; and ensure that the Board comprises at least one-third of Independent Directors; and
- to make recommendation to the Board on the performance criteria and appraisal process to be used for the evaluation of the individual Director as well as the effectiveness of the Board as a whole, which criteria and process shall be subject to the Board's approval.

Pursuant to the Articles of Association of the Company, one-third of the Directors (except the Managing Director) must retire from office at an Annual General Meeting of the Company. Therefore, all the Directors must retire and may submit themselves for re-election at regular intervals at least once in every three years.

When a Director has multiple board representations, the NC also considers whether or not the Director is able to and has adequately carried out his duties as a Director of the Company. The search and nomination process for new Directors (if any) will be conducted through contacts and recommendations that go through the normal selection process, to ensure the search for the right candidates is as objective and comprehensive as possible.

## **Principle 5: Board Performance**

The NC has set up a framework for the formal assessment of the performance of the Board as a whole and is in the process of setting up a framework for the formal assessment of the performance and contribution by each Director. The NC has established objective performance criteria by which the Board's performance may be evaluated.

### **Framework for Assessment of Board Performance**

Based on the recommendations by the NC, the Board has established processes and objective performance criteria for evaluating the effectiveness of the Board as a whole.

In evaluating the Board's performance, the NC considers a set of quantitative and qualitative performance criteria. These criteria have been approved by the Board and have not changed from last year. The performance criteria for the Board evaluation were in respect of Board size and composition, Board processes, Board information, Board performance in relation to discharging its principal functions and responsibilities and targets.

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

We believe that in order to ensure that the Board is able to fulfill its responsibilities; the management is required to provide timely and complete information that requires the Board's decision as well as be provided with periodic reports on material operational and financial matters of the Company and of the Group.

As a general rule, the Board papers are required to be sent by management to Directors at least seven days before the Board meeting so that the members may better understand the matters before the Board meeting and discussion may be focused on questions that the Board has about the Board papers.

The Directors have separate and independent access to the Company's senior management, who together with the Joint Company Secretaries, are responsible for ensuring that the Board procedures are followed and that applicable rules and regulations are complied with. Under the Articles of Association of the Company, the decision to appoint or remove the Company Secretaries can only be taken by the Board as a whole. The Company Secretaries or their respective

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representatives administer, attend and prepare minutes of all Board and Board committee meetings. They assist the Chairman in ensuring that Board procedures are followed and regularly reviewed to ensure effective functioning of the Board, and that the Company's Memorandum and Articles of Association and relevant rules and regulations, including requirements of the Companies Act, Cap. 50 and the Catalist rules of Singapore Exchange Securities Trading Limited are complied with. They also assist the Chairman and the Board in implementing and strengthening corporate governance practices and processes with a view to enhancing long-term shareholders' value. They are also the primary channel of communication between the Company and the Singapore Exchange Securities Trading Limited.

The Directors may communicate directly with the management and the Joint Company Secretaries on all matters whenever they deem necessary.

The Board has the right to seek independent professional advice as and when necessary to enable it to discharge its responsibilities effectively. Subject to the approval of the Chairman, the Directors of the Company, whether as a group or individually, may seek and obtain independent professional advice to assist them in their duties, at the expense of the Company.

## REMUNERATION MATTERS

### Principle 7: Procedures for Developing Remuneration Policies

The Remuneration Committee ("RC") comprises three members, all of whom are Non-Executive and Independent Directors:-

|  |   |
|--|---|
| Tan Sri Dato' Kamaruzzaman Bin Shariff | (Chairman of RC and Non-Executive and Independent Director) |
| Jiro Suzuki                            | (Member and Non-Executive and Independent Director)         |
| Wong Heang Fine                        | (Member and Non-Executive and Independent Director)         |

The RC is established for the purpose of ensuring that there is a formal and transparent procedure for determining the remuneration packages of individual directors. In setting remuneration packages, the Company takes into account pay and employment conditions within the same industry and in comparable companies, as well as the Group's relative performance and the performance of individual Directors. The overriding principle is that no Director should be involved in deciding his own remuneration.

The duties and responsibilities of the RC as set out in the Terms of Reference approved by the Board include the following:-

- reviewing the remuneration packages and terms of employment of all Executive Directors and the CEO;
- reviewing remuneration of all managerial staff that are related to any of the Directors, the CEO and any substantial shareholder of the Company; and
- reviewing and making recommendation to the Board on the implementation of any appropriate long term incentive schemes for the Directors and employees of the Group.

### LBC Restricted Share Scheme ("RSS") and LBC Performance Share Scheme ("PSS")

The Remuneration Committee administers the LBC RSS and LBC PSS.

One of the primary objectives of the LBC RSS is to serve as an additional motivational tool to recruit and retain talented Group Executives and Non-Executive Directors. It is also aimed at rewarding eligible participants for their sustained achievements within the Group, which will include granting awards of fully paid shares in the capital of the Company to participants for their loyalty and/or past performance, sustained high level of performance, sustained commitment and/or sustained high level of leadership and/or contribution to any of the companies in the Group.

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Awards granted under the RSS will typically vest only after the satisfactory completion of time-based service conditions, that is, after the participant has served the Company and/or any of its subsidiaries for a specified number of years (also known as time-based restricted awards). No minimum vesting period(s) are prescribed under the RSS and the length of the vesting period(s) in respect of each award will be determined on a case-by-case basis. Such time-based restricted awards may be granted for example, as a supplement to the cash component of the remuneration packages of senior executives.

One of the primary objectives of the PSS is to increase the Company's flexibility and effectiveness in its continuing efforts to reward, retain and motivate key staff.

Awards granted under the PSS are based on specific and pre-determined measurable targets which are not time-related, generally known as performance-based targets. Such performance-based targets set under the PSS are intended to focus on corporate objectives covering for example, market competitiveness, quality of returns, business growth and productivity growth and to focus on contribution(s) made to any company within the Group. The performance targets are stretched targets aimed at sustaining long term growth. The PSS contemplates the award of fully paid shares in the capital of the Company when and after pre-determined measurable performance targets are accomplished and/or due recognition should be given to any good work performance and/or significant contribution to the Company and any of its subsidiaries.

Awards granted under the PSS differ from those granted under the RSS in that there is an element of sustained achievement over a period of time in the targets and service conditions for awards granted under the RSS, whereas awards granted under the PSS are dependent on performance-based targets.

The following table sets out the information required to be disclosed pursuant to Catalist Rule 851 of the Listing Manual:

## RESTRICTED SHARE SCHEME ("RSS")

| Name of Participant                           | Awards under RSS granted during the financial year under review (31/3/09) (including terms) | Aggregate Awards granted since the commencement of the RSS to end of financial year under review (31/3/09) | Aggregate Awards issued since the commencement of the RSS to end of financial year under review (31/3/09) | Aggregate Awards under RSS not yet issued at end of financial year under review (31/3/09) |
|---|---|--|---|---|
| <b>DIRECTORS</b>                              |   |  |   |   |
| Tan Sri Dato' Kamaruzzaman Bin Shariff        | -   | 315,000  | 315,000   | -   |
| Ong Puay Koon <sup>(1)</sup>                  | -   | 3,800,000  | 3,040,000   | 760,000   |
| Ong Choon Lui <sup>(2) (4)</sup>              | -   | 1,956,000  | 1,564,000   | 392,000   |
| Goh Yeow Tin                                  | -   | -  | -   | -   |
| Jiro Suzuki                                   | -   | 32,000   | 32,000  | -   |
| Kong Mun Kwong                                | -   | 17,470,000   | 12,376,000  | 5,094,000   |
| Peter John Farrar                             | -   | 32,000   | 32,000  | -   |
| Wong Heang Fine                               | -   | 340,000  | 340,000   | -   |
| Yap Boh Pin                                   | -   | 265,000  | 265,000   | -   |
| <b>Associate of a controlling shareholder</b> |   |  |   |   |
| Ong Ai Koon <sup>(3) (4)</sup>                | -   | 1,242,000  | 994,000   | 248,000   |

Note: <sup>(1)</sup> Ong Puay Koon ("OPK") is also controlling shareholder of the Company

<sup>(2)</sup> Ong Choon Lui is the son of OPK

<sup>(3)</sup> Ong Ai Koon is the daughter of OPK

<sup>(4)</sup> An associate of a controlling shareholder

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## PERFORMANCE SHARE SCHEME (“PSS”)

| Name of Participant                           | Awards under PSS granted during the financial year under review (31/3/09) (including terms) | Aggregate Awards granted since the commencement of the PSS to end of financial year under review (31/3/09) | Aggregate Awards issued since the commencement of the PSS to end of financial year under review (31/3/09) | Aggregate Awards under PSS not yet issued at end of financial year under review (31/3/09) |
|---|---|--|---|---|
| <b>DIRECTORS</b>                              |   |  |   |   |
| Tan Sri Dato’ Kamaruzzaman Bin Shariff        | 891,000   | 891,000  | 617,000   | 274,000   |
| Ong Puay Koon <sup>(1)</sup>                  | 7,052,000   | 7,052,000  | 7,052,000   | -   |
| Ong Choon Lui <sup>(2)(4)</sup>               | 317,000   | 317,000  | 317,000   | -   |
| Goh Yeow Tin                                  | 411,000   | 411,000  | 411,000   | -   |
| Jiro Suzuki                                   | 789,000   | 789,000  | 412,000   | 377,000   |
| Kong Mun Kwong                                | 10,667,000  | 10,667,000   | 10,667,000  | -   |
| Peter John Farrar                             | 754,000   | 754,000  | 445,000   | 309,000   |
| Wong Heang Fine                               | 789,000   | 789,000  | 789,000   | -   |
| Yap Boh Pin                                   | 789,000   | 789,000  | 789,000   | -   |
| <b>Associate of a controlling shareholder</b> |   |  |   |   |
| Ong Ai Koon <sup>(3)(4)</sup>                 | 581,000   | 581,000  | 581,000   | -   |

Note: <sup>(1)</sup> Ong Puay Koon is also controlling shareholder of the Company

<sup>(2)</sup> Ong Choon Lui is the son of OPK

<sup>(3)</sup> Ong Ai Koon is the daughter of OPK

<sup>(4)</sup> An associate of a controlling shareholder

Catalist Rules 851(1)(c) and (d) of the Listing Manual are not applicable as the Company does not have a parent company.

During the financial year, an aggregate of 43,574,500 ordinary shares in the capital of the Company were awarded to eligible participants of the Group pursuant to the RSS and PSS. Mr Lim Leong Kiat received 5% or more of the total awards available under the RSS and PSS for the financial year under review.

At the last Annual General Meeting on 28 July 2008, the Company’s shareholders had approved shares to be granted and awarded to Mr Ong Puay Koon, Mr Ong Choon Lui and Ms Ong Ai Koon under the PSS. However, due to adjustments in the Company’s traded share price between the date of shareholder’s approval of the grant and award of shares to them and the date of actual allotment of the shares to them, the Remuneration Committee and the Board had during the financial year, approved 4,481,000 additional shares for Mr Ong Puay Koon, 74,000 additional shares for Mr Ong Choon Lui and 334,000 additional shares for Ms Ong Ai Koon under the PSS which are not reflected in the table above (collectively called the “Additional Shares”).

Due to the world financial crisis, no shares will be granted or awarded to LBC Group’s employees under the LBC PSS for FY 2009 at the coming Annual General Meeting on 30 July 2009. The grant and award of the Additional Shares to Mr Ong Puay Koon, Mr Ong Choon Lui and Ms Ong Ai Koon shall be tabled for the Company’s shareholders’ approval in future instead of at the Annual General Meeting on 30 July 2009.

### Principle 8: Level and Mix of Remuneration

The remuneration of Executive Directors is based on service agreements entered into with the Company. The Executive Directors did not receive Directors’ fees in this financial year.

The remuneration of the Non-Executive Directors is set out in accordance with a framework comprising basic and Board Committees’ fees. In determining the quantum of such fees, factors such as frequency of meetings, time spent and

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responsibilities of Directors are taken into account. Directors' fees are paid subject to approval of shareholders at the annual general meeting.

## Principle 9: Disclosure on Remuneration

A breakdown, showing the level and mix of each Director's remuneration for the financial year ended 31 March 2009 is as follows:

| Name/Remuneration Band                    | Directors Fee | Base/Fixed Salary | Restricted/ Performance Share Award | Other Benefits | Total |
|---|---------------|-------------------|-------------------------------------|----------------|-------|
| <b><u>DIRECTOR</u></b>                    |               |                   |                                     |                |       |
| <b><u>S\$1,000,000 to \$1,499,999</u></b> |               |                   |                                     |                |       |
| Kong Mun Kwong                            | 0%            | 28%               | 71%                                 | 1%             | 100%  |
| <b><u>S\$500,000 to S\$749,999</u></b>    |               |                   |                                     |                |       |
| Ong Puay Koon                             | 0%            | 45%               | 55%                                 | 0%             | 100%  |
| <b><u>S\$150,000 to S\$249,999</u></b>    |               |                   |                                     |                |       |
| Ong Choon Lui                             | 0%            | 61%               | 33%                                 | 6%             | 100%  |
| <b><u>Below S\$150,000</u></b>            |               |                   |                                     |                |       |
| Tan Sri Dato' Kamaruzzaman Bin Shariff    | 43%           | 0%                | 57%                                 | 0%             | 100%  |
| Goh Yeow Tin                              | 52%           | 0%                | 48%                                 | 0%             | 100%  |
| Jiro Suzuki                               | 27%           | 0%                | 73%                                 | 0%             | 100%  |
| Peter John Farrar                         | 37%           | 0%                | 63%                                 | 0%             | 100%  |
| Wong Heang Fine                           | 27%           | 0%                | 73%                                 | 0%             | 100%  |
| Yap Boh Pin                               | 32%           | 0%                | 68%                                 | 0%             | 100%  |

Note: Other benefits include allowance, benefits in kind and employer CPF contributions.

The remuneration of the top five executives (excluding Directors) of the Group for the financial year ended 31 March 2009 is as follows:-

| Name/Remuneration Band                 | Base/Fixed Salary | Restricted/ Performance Share Award | Other Benefits | Total |
|--|-------------------|-------------------------------------|----------------|-------|
| <b><u>TOP 5 EXECUTIVES</u></b>         |                   |                                     |                |       |
| <b><u>S\$250,000 to S\$499,999</u></b> |                   |                                     |                |       |
| Lim Leong Kiat                         | 50%               | 45%                                 | 5%             | 100%  |
| <b><u>S\$150,000 to S\$249,999</u></b> |                   |                                     |                |       |
| Seng Suet Shee, Barbara                | 57%               | 33%                                 | 10%            | 100%  |
| <b><u>Below S\$150,000</u></b>         |                   |                                     |                |       |
| Lee Tze Ian                            | 54%               | 23%                                 | 23%            | 100%  |
| Lue Kok Keong, Eric                    | 63%               | 22%                                 | 15%            | 100%  |
| Ong Ai Koon                            | 51%               | 35%                                 | 14%            | 100%  |

Note: Other benefits include allowance, benefits in kind and employer CPF contributions

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## Immediate Family Member of Directors or Substantial Shareholders

Save for Mr Ong Choon Lui who is the son of Mr Ong Puay Koon (Managing Director, CEO and substantial shareholder of the Company) whose remuneration is between \$150,000 and \$249,999 for the financial year ended 31 March 2009, there are no immediate family members of Directors or substantial shareholders whose remuneration exceeds \$150,000 for the financial year ended 31 March 2009.

## ACCOUNTABILITY AND AUDIT

### Principle 10: Accountability

The Board is accountable to the shareholders and is mindful of its obligations to furnish timely information and to ensure full disclosure of material information to shareholders in compliance with the statutory requirements and the Listing Manual of the Singapore Exchange Securities Trading Limited.

Price sensitive information will be publicly released either before the Company meets with any group of investors or analysts or simultaneously with such meetings. Financial results and annual reports will be announced or issued within legally prescribed periods.

### Principle 11: Audit Committee

The Audit Committee ("AC") comprises three members, all of whom are Non-Executive and Independent Directors:-

|                   |   |
|-------------------|---|
| Peter John Farrar | (Chairman of AC and Non-Executive and Independent Director) |
| Wong Heang Fine   | (Member and Non-Executive and Independent Director)         |
| Yap Boh Pin       | (Member and Non-Executive and Independent Director)         |

The members of the AC have many years of experience in business management and financial services. The Chairman of the Audit Committee was formerly an Audit Partner of an international accounting firm. One of the AC members is a very experienced and qualified accountant and the other member has significant experience in financial management. The Board views the members of the AC to have sufficient financial management expertise and experience to discharge its responsibilities properly.

The primary responsibility of the AC is to provide the support and assistance to the Board in ensuring that a high standard of corporate governance is maintained and preserved at all times. It acts as a conduit between the Board and external auditors. The AC has full access to all management personnel and can call upon any member of management and staff or any member of the Board to attend its meetings.

The AC has written Terms of Reference approved by the Board. The AC's responsibilities include the following:

- to review the audit plan of the Company's internal and external auditors and ensure the adequacy of the Company's system of accounting controls and the co-operation given by the Company's management to the external and internal auditors;
- to review the Group's financial and operating performance;
- to review interested person transactions in accordance with the requirements of the Singapore Exchange Securities Trading Limited's Listing Manual;
- to review the cost effectiveness, independence and objectivity of the external auditors;
- to evaluate the Group's system of internal controls, including financial, operational and compliance controls and risk management via reviews carried out by the internal auditor;
- to review and make recommendation to the Board on the appointment and re-appointment of internal and external auditors of the Company and the Group;
- to review annual financial statements of the Company and the consolidated financial statements of the Group, prior to submission to the Board together with the external auditors' reports on those financial statements; and
- other related matters raised by the Board.

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The AC has power to conduct or authorise investigations into any matters within the AC's scope of responsibility.

The AC has conducted a review of all non-audit services provided by the external auditors and is satisfied that the nature and extent of such services will not prejudice the independence and objectivity of the auditors. For the financial year ended 31 March 2009, there was no non-audit fees paid to the auditors. The AC has also conducted a review of interested person transactions.

The AC has met with the external auditors, and with the internal auditors, without the presence of the Company's management, at least once in the financial year.

The AC has recommended that Ernst & Young LLP be nominated for re-appointment as auditors at the forthcoming Annual General Meeting.

The Company has put in place arrangements for a whistle-blowing framework by which staff of the Company may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters with the Audit Committee. The objective for such arrangement is to ensure independent investigation of such matters and for appropriate follow-up action.

## **Principle 12: Internal Controls**

The Board acknowledges that it is responsible for the overall internal control framework, but recognises that no cost effective internal control system will preclude all errors and irregularities. The Board recognises that the internal control framework is designed to manage instead of eliminate the risk of failure to achieve business objectives and can provide only reasonable and not absolute assurance against material misstatement or loss. Notwithstanding the aforesaid, procedures are in place to identify major business risks and evaluate potential financial effects. In addition, the AC reviews and evaluates annually the effectiveness of the Group's system of internal controls, including financial, operational and compliance controls and risk management.

The external auditors carry out, in the course of their statutory audit, an annual review of the effectiveness of the Company's material internal controls to the extent laid out in their audit plan. Material internal control weaknesses noted during their audit (if any) and the auditors' recommendations are reported to the Board and the Audit Committee. Steps are taken to rectify any weaknesses reported.

## **Principle 13: Internal Audit**

The Group had engaged one of the big four international accounting firms to carry out part of the internal audit function. The scope of their work is determined annually by the AC. In 2008/09 the work covered corporate governance and financial accounting process and controls. In the course of their work, certain review of operational and compliance controls and audits of other management processes were carried out. The Internal Auditor reports directly to the AC on all internal audit matters.

The AC has reviewed the Company's risk assessment and based on the Internal Audit report(s) and management controls in place, it is satisfied that there are adequate internal controls in the Group, including financial, operational and compliance controls, and risk management systems.

## **Principle 14: Communication with Shareholders**

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

The Board is mindful of the obligations to provide timely disclosure of material information in accordance with the Corporate Disclosure Policy of the Singapore Exchange Securities Trading Limited.

# STATEMENT OF CORPORATE GOVERNANCE

Information is disseminated to shareholders on a timely basis through:

- (a) SGXNET announcements and news release;
- (b) Annual Report prepared and issued to all shareholders;
- (c) Press releases on major developments of the Group; and
- (d) Notices of and explanatory memoranda for annual general meetings (“AGMs”) and extraordinary general meetings (“EGMs”).

The Company’s AGMs are the principal forums for dialogue with shareholders. The Chairmen of the Audit, Remuneration and Nominating Committees are normally available at the meetings to answer any questions relating to the work of these Board Committees. The External Auditors shall also be present to assist the Directors in addressing any relevant queries by the shareholders.

Shareholders are encouraged to attend the AGM/EGM to ensure high level of accountability and to stay informed of the Group’s strategy and goals. Notice of the meeting will be advertised in newspapers and announced on SGXNET.

The Articles of Association allow a member of the Company to appoint one or two proxies to attend and vote instead of the member. The Company is not implementing absentia-voting methods such as by mail, email or fax until security, integrity and other pertinent issues are satisfactorily resolved.

Minutes or notes of general meetings are prepared by the Company and these may be made available to shareholders upon their written application and payment of administrative fees incurred by the Company.

## RISK MANAGEMENT

The Board of Directors has set up a Risk Management Committee (“RMC”) to review the overall risk management guidelines/framework, review and recommend risk limits, assess the adequacy and effectiveness of the risk management policies and systems and to assist in reviewing the risks for significant transactions. The RMC has its own written terms of reference.

The RMC comprises the following four members: -

|                 |  |
|-----------------|--|
| Wong Heang Fine | (Chairman of RMC and Non-Executive and Independent Director) |
| Ong Puay Koon   | (Member and Managing Director and Chief Executive Officer)   |
| Ong Choon Lui   | (Member and Executive Director)                              |
| Lim Leong Kiat  | (Member, Deputy President and Chief Financial Officer)       |

Mr Kong Mun Kwong stepped down from the RMC on 7 April 2009.

The risks for less significant transactions are reviewed by the Group Management Committee (“GMC”). The GMC’s responsibilities include amongst other things, the monitoring and improvement of the overall effectiveness of the Group’s risk management system and to review the risk limits to manage its overall risk exposure. The GMC reports to the RMC on any matters relating to risk that it wishes to refer to the RMC.

The GMC comprises the following three members:-

|                |   |
|----------------|---|
| Ong Puay Koon  | (Chairman of GMC and Managing Director and Chief Executive Officer) |
| Ong Choon Lui  | (Member and Executive Director)                                     |
| Lim Leong Kiat | (Member, Deputy President and Chief Financial Officer)              |

Details of the various risk factors and the management of such risks are outlined in Note 33 of the financial statements.

# STATEMENT OF CORPORATE GOVERNANCE

## SECURITIES TRANSACTIONS

The Company has in place a policy prohibiting share dealings by Directors and employees of the Group for the period of one month prior to the announcement of the Group's half yearly and yearly results, and for the period of two weeks before the announcement of the Group's quarterly results, and ending on the date of the announcement of the relevant results. Directors and employees are expected to observe the insider trading laws at all times even when dealing in securities within permitted trading periods.

## INTERESTED PERSON TRANSACTIONS

| Name of Interested Person  | Aggregate value of all interested person transactions during the financial year under review (excluding transactions less than \$100,000 and transactions conducted under shareholders' mandate pursuant to Rule 920)<br>\$'000 | Aggregate value of all interested person transactions conducted under shareholders' mandate pursuant to Rule 920 (excluding transactions less than \$100,000)<br>\$'000 |
|--|---|---|
| <u>Cost and expenses</u><br><br>Office rental billed by Sun Continental Investment & Trading Pte Ltd | -   | 320   |

## Material Contracts

There was no material contract entered into by the Company or any of its subsidiary companies involving the interest of the CEO, any Director, or controlling shareholder.