

Avaplas Ltd



Cultivating
Change
Fostering
Growth

annual report
2004

Corporate Governance

The Company is committed to good standards of corporate governance in line with the recommendations of the Code of Corporate Governance ("Code") issued by the Corporate Governance Committee. Good corporate governance establishes and maintains a legal and ethical environment in the Company strives to preserve the interests of all shareholders.

This statement outlines the main corporate governance practices that were in place throughout the financial year or which will be implemented and where appropriate, we have provided explanation for deviation from the Code.

BOARD MATTERS

The Board's Conduct of its Affairs

The Board has five members comprising two executive Directors and three non-executive independent Directors.

The Company holds regular scheduled meetings throughout the year. Ad hoc meetings are convened when circumstances require. The Company's Articles of Association permit Directors to attend meetings through the use of audio-visual communication equipment. During the period from 1 April 2003 to 1 July 2004, a total of 7 Board meetings were held. The Directors attended 100% of the aggregate number of meetings of the Board.

In between Board meetings, important matters concerning the Company are also put to the Board for its decision by way of circulating resolutions-in-writing for the Directors' approval together with supporting memoranda enabling the Directors to make informed decisions.

The Board oversees the business affairs of the Group, approves the financial objectives and the strategies to be implemented by management and monitors standards of performance and issues of policy directly. In addition to its statutory duties, the Board's principal functions are :-

1. Approving the Group's strategic plans, key operational initiatives, major investments and divestments and funding requirements;
2. Approving the budget, reviewing the performance of the business and approving the release of the financial results of the Group to shareholders;
3. Providing guidance in the overall management of the business and affairs of the Group;
4. Overseeing the processes for risk management, financial reporting and compliance;
5. Approving the recommended framework of remuneration for the Board and key executives.

Matters that are specifically reserved for the approval of the Board, include, among others, any material acquisitions and disposals of assets, corporate or financial restructuring, share issuance and the proposing of dividends.

The Board has adopted a set of internal guidelines on the matters requiring Board approval. Certain functions have also been delegated to various Board committees, namely, the Audit Committee, the Remuneration Committee and the Nominating Committee.

Directors' Orientation and Access to Information

Changes to regulations and accounting standards are monitored closely by management. To keep pace with regulatory changes, where these changes have an important bearing on the Company's or director's disclosure obligations, Directors are briefed either during Board meetings or at specially-convened sessions conducted by professionals. Newly appointed Directors will be given briefings by the management on the business activities of the Group and its strategic directions as well as their duties and responsibilities as Directors. All Directors are members of the Singapore Institute of Directors and are kept informed of the latest and best practices relating to corporate governance.

In order to ensure that the Board is able to fulfill its responsibilities, prior to the Board meetings, the management provides the members of the Board with management accounts, as well as relevant background information and documents relating to items of business to be discussed at a Board meeting before the scheduled meeting.

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The Directors are also regularly briefed on the business activities of the Group. Directors conduct routine inspections of the manufacturing facilities both in Singapore and abroad.

The Board has separate and independent access to the Company Secretary at all times and the Company Secretary attends all Board and Committee meetings and is responsible for ensuring that Board procedures are followed. The Board also has access to independent professional advice, where necessary, at the Company's expense.

Board Composition and Balance

The majority of Directors are non-executive and independent of management. The Board comprises five members of whom two are executive Directors and three are non-executive independent Directors. Independent Directors comprise more than one third of the Board members.

The Board is able to exercise objective judgement independently from Management and no individual or small group of individuals dominate the decisions of the Board.

The Nominating Committee is of the view that the current Board size of five Directors is appropriate taking into account the nature and scope of the Group's operations, the core competencies of knowledge and the business experiences of the Directors to govern and meet the Group's objectives.

The Board has no dissenting view on the Chairman's statement for the year in review.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Mr. Boone Quek Howe Sear ("Mr. Quek") is currently the Chairman of the Board (the "Chairman") and the Chief Executive Officer ("CEO")/ Managing Director of the Company (the "Managing Director").

The Board has not adopted the recommendation of the Code to have separate Directors appointed as the Chairman and the Managing Director. This is because the Board is of the view that there is already a sufficiently strong independent element on the Board to enable the independent exercise of objective judgment on corporate affairs of the Group by members of the Board, taking into account factors such as the number of non-executive and independent Directors on the Board, as well as the size and scope of the affairs and operations of the Group. The Managing Director need not retire by rotation as provided in the Articles of Association of the Company.

As the Chairman, Mr. Quek is responsible for, among others, exercising control over quality, quantity and timeliness of the flow of information between the management of the Company (the "Management") and the Board, and assisting in ensuring compliance with the Company's guidelines on corporate governance.

BOARD COMMITTEES

Nominating Committee

A Nominating Committee ("NC") has been established by the Board to recommend the appointment, nomination, re-appointment and assessment of all Directors to the Board. The NC comprises three non-executive independent Directors. The NC is chaired by Mr Gay Chee Cheong who is a non-executive and independent Director. The other members of the Nominating Committee are Mr Ng Jwee Phuan @ Frederick (Eric) (non-executive and independent Director) and Mr David Chia Tian Bin (non-executive and independent Director).

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The NC has adopted a set of Terms of Reference which, among others, include the following functions:-

- (1) The appointment or re-appointment of members of the Board and of the various Board Committees.
- (2) Evaluating and assessing the effectiveness of the Board as a whole, and the contribution made by each individual Director to the effectiveness of the Board. The NC has considered a number of factors, including those set out in the Code, for the purpose of such evaluation and assessment.
- (3) Determining the independence of Directors.

New Directors, if any, are appointed by way of a board resolution, after the NC has approved their nomination. Such new Directors submit themselves for re-election at the next Annual General Meeting ("AGM"). The Company's Articles of Association requires one-third of the Board to retire by rotation at every AGM.

The financial indicators set out in the Code as guides for the evaluation of Directors are, in the Company's opinion, not the only means in assessing Directors. In any case, such financial indicators provide only a snapshot of a Company's performance, and do not fully measure the sustainable long term wealth and value creation of the Company.

The Board, through the delegation of its authority to the NC, has used its best efforts to ensure that Directors appointed to the Board possess the background, experience and knowledge in technology, business, finance and management skills critical to the Group's business and that each Director, through his unique contributions, brings to the Board an independent and objective perspective to enable balanced and well-considered decisions to be made.

The NC is of the opinion that the Directors, who have been classified as independent under the Board Composition section, are indeed independent and the current size of the Board is adequate for the purposes of the Group.

Remuneration Committee

The Remuneration Committee ("RC") comprises two non-executive independent Directors and one executive Director. The RC is chaired by Mr Ng Jwee Phuan @ Frederick (Eric) who is a non-executive and independent Director. The other members of the RC are Mr David Chia Tian Bin (non-executive and independent Director) and Mr Wong Vee Tong (Executive Director).

The RC has adopted a set of terms of reference which, among others, include the following functions:

- (1) Preview and formalize the Company's overall compensation policy and structure and to be updated of any changes thereto;
- (2) Recommend a framework of Remuneration for Board members and key executives of the Group;
- (3) Review and recommend for Board approval the terms of employment for CEO and terms of employment of executive Directors in accordance with the approved framework of remuneration;
- (4) Review annually the actual compensation of employees to ensure compliance with approved compensation policies and corporate governance rule on disclosure;
- (5) Prepare the Board's annual report on remuneration for Board's consideration whether or not to seek shareholders approval under corporate governance disclosure rules;
- (6) Oversee work of external consultant engaged on project basis to advise Board on compensation issues;
- (7) Oversee the administration of employees' stock option and restricted stock plan

The Executive Directors have service contracts. The non-executive Directors do not have any service agreements with the Company and have remuneration packages consisting of a Director's fee and share options pursuant to the Company's Share Option Scheme.

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A breakdown of the level and mix of remuneration paid to Directors and key executives in remuneration bands of S\$250,000 for financial year 2004 are as follows:

	Salary	Bonus	Profit Sharing	Benefits	Fee	Total
	%	%	%	%	%	%
Directors						
Above \$500,000						
<i>Boone Quek Howe Sear</i>	71	12	–	11	6	100
Between \$250,000 to \$499,999						
Wong Vee Tong	75	14	–	–	11	100
Below \$250,000						
Choi Peng Kum					100	100
David Chia Tian Bin					100	100
Ng Jwee Phuan@ Frederick (Eric)					100	100
Gay Chee Cheong					100	100
Amos Tan Boon Lian					100	100

A breakdown of the range of gross remuneration received by Directors and top 5 key executives of the Group are as follows:

Number of Directors in remuneration band	2004	2003
\$500,000 and above	1	1
\$250,000 to \$499,999	1	1
Below \$250,000	5	5
	<u>7</u>	<u>7</u>

Number of Executives in remuneration band	2004	2003
\$500,000 and above	-	-
\$250,000 to \$499,999	-	-
Below \$250,000	9	9

No employee of the company and its subsidiaries is an immediate family member of a Director or the CEO/Managing Director.

The details of Avaplas Ltd's Employees' Share Option and Restricted Plan can be found in the Directors' Report.

ACCOUNTABILITY AND AUDIT

Accountability

In presenting the annual financial statements and announcements of financial results to shareholders, it is the aim of the Board to provide shareholders with a balanced and understandable assessment of the Company's and Group's performance, position and prospects. Management will provide the Audit Committee and the Board with balanced and understandable management accounts of the Company's performance, position and prospects on a regular basis.

Audit Committee

The Audit Committee ("AC") comprises three non-executive independent Directors. The AC is chaired by Mr David Chia Tian Bin who is a non-executive and independent Director. The other members of the RC are Mr Ng Jwee Phuan @ Frederick (Eric) (non-executive and independent Director) and Mr Gay Chee Cheong (non-executive and independent Director).

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As the members of the AC have many years of experience in accounting, banking and finance related industries, the Board considers that the members are appropriately qualified to discharge the responsibilities of the AC.

The AC has adopted a set of Terms of Reference which, among others, include the following functions:

- (1) Review the audit plans and the scope of examination of the external auditors of the Company and other Group companies;
- (2) Review the annual and half-yearly financial statements of the Company as well as the external auditors' report thereon ;
- (3) Review the effectiveness of the Company's system of accounting and internal financial controls ;
- (4) Review interested person transactions to ensure that such transactions are conducted at arm's length and on normal commercial terms ;
- (5) Review the independence and objectivity of the external auditors annually;
- (6) Review the nature and extent of non-audit services performed by the external auditors;
- (7) Consider the appointment or re-appointment of external auditors before recommending to the Board for approval ;
- (8) Examine whatever aspects it deems appropriate of the Group's financial affairs, its external audits and its exposure to risks of a regulatory or legal nature; and
- (9) Conduct investigations into any matter within its terms of reference.

The Audit Committee has full access to and the co-operation of Management and full discretion to invite any Director or executive officer to attend its meetings, and reasonable resources to enable it to discharge its functions properly.

In performing its functions, the AC meets with the external auditors without the presence of management at least annually. The Audit Committee reviews the findings of the auditors and the assistance given to them by management. Minutes of the Audit Committee meetings are regularly submitted to the Board for its information and review.

During the period from 1 April 2003 to 1 July 2004, a total of 5 AC meetings were held. The AC members attended 100% of the aggregate number of AC meetings held.

The AC has reviewed the amount of non-audit fees paid to the auditors and is of the view that the independence of the auditors has not been compromised.

Internal controls

During the financial year, the Audit Committee has reviewed, with the assistance of the external auditors, the effectiveness of the Company's material internal controls as well as considered risk management techniques to be applied to selected areas such as the Group's foreign exchange exposure.

Based on the review of the Audit Committee, the Board is satisfied that the internal controls of the Group are adequate to safeguard shareholders' investments and the Group's assets, and to ensure the integrity of its financial statements. The Board has appointed a professional firm of accountants for a period of 2 years to provide internal audit services in order to comprehensively review and enhance its review of the internal controls within the Group.

Internal audit

As the Group's scale of operations is not large, the AC has outsourced the Group's internal audit function to Teo Foong Wong LC Loong, a professional firm of accountants ("Internal Auditor"). The AC is of the view that the Internal Auditor is independent and will objectively review the adequacy or otherwise of the system of internal control within the Group. In this regard, the Internal Auditor will report directly to the AC. The AC has confirmed that the Internal Auditor is able to meet 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 AC will ensure the adequacy of the internal audit function, and further ensure that it is adequately resourced and has appropriate standing within the Group. The AC has reviewed and approved the internal audit plan to be implemented for the year ending 31 March 2005.

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COMMUNICATION WITH SHAREHOLDERS

The Board is mindful of the obligation to provide timely and fair disclosure of material information. The annual and half-yearly financial results and other price sensitive information and notices are announced through MASNET. The Company does not practice selective disclosure. All shareholders of the Company receive the Annual Report and Notice of Annual General Meeting ("AGM"). At AGM, shareholders are given the opportunity to air their views and to ask the Directors questions regarding the Company and the Group.

DEALING IN SECURITIES

The Company has issued a policy note to its Directors and key employees, setting out the implications of insider trading and the principles expounded by the Best Practices Guide of the SGX-ST. The Directors and key employees of the Company have been advised of the internal code of conduct on dealings in the securities of the Company accordingly. The internal code prohibits dealings in securities of the Company by Directors and employees while in possession of price-sensitive information, and during the period beginning one month before the announcement of the half year and full year results and ending on the day after date of announcement.

It also discourages dealings on short-term considerations. Directors are required to report securities dealings to the Company Secretary who will assist in making the necessary announcements.

MATERIAL CONTRACTS

There were no material contracts of the Company or its subsidiaries involving the interests of the Chief Executive Officer (as defined in the SGX-ST Listing Manual), each Director or Controlling Shareholder, either still subsisting at the end of the financial year or if not then subsisting, entered into since the end of the previous financial year except for Directors' emoluments and interested person transactions as disclosed in Notes 22 and 27 of the financial statements.

INTERESTED PERSON TRANSACTIONS

The interested person transactions conducted under the mandate and with other interested persons during the year in review are set out in the table below.

Name of Interested Person (\$'000)	Aggregate value of all interested person transactions during the financial year under review (excluding transactions less than \$100,000 and transactions under shareholder mandate pursuant to Rule 920 of the SGX Listing Manual)	Aggregate value of all interested person transactions conducted under shareholders mandate pursuant to Rule 920 of the SGX Listing Manual (excluding transactions less than \$100,000)
Sales of goods		
- Univac Precision Engineering Pte Ltd and its subsidiary companies	-	1,290
- Venture Corporation Limited and its subsidiary companies*	-	12,448
- Univac Precision Plastics (Shanghai) Co. Ltd	-	1,611
Purchase of goods and services rendered from		
- Univac Precision Engineering Pte Ltd and its subsidiary companies	-	2,049
- Univac Precision Plastics (Shanghai) Co. Ltd	-	3,992
Acquisition of additional stake in the capital of Univac Design and Engineering Pte Ltd from SEB Engineering & Trading Pte Ltd	552	-
Acquisition of additional stake in the capital of Univac Design and Engineering Pte Ltd	363	-

* Exclude Univac Precision Engineering Pte Ltd and its subsidiaries

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