

STATEMENT OF INTERNAL CONTROL

BOARD'S RESPONSIBILITY

The Board of Directors recognises the importance of sound internal control for good corporate governance. The Board affirms its overall responsibility for the Group's systems on internal control, which include the establishment of an appropriate control environment and framework as well as reviewing the adequacy and integrity of those systems. It should be noted, however, that such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives. In addition, it should also be noted that these systems could only provide reasonable but not absolute assurance against material misstatement or loss.

Following the issuance of the Guidance, the Board confirms that there is an on-going process for identifying, evaluating and managing significant risks faced by the Group that has been put in place for the year and up to the date of approval of the Annual Report and financial statements. The process is regularly reviewed by the Board through its Audit Committee, which is assisted by the Internal Auditors.

RISK MANAGEMENT FRAMEWORK

The Board is aware that a sound system of internal control should form part of the Group's culture and be embedded in its operations. In order to bring greater awareness of the Board and the management towards risk identification, evaluation, control and monitoring, a structural Corporate Risk Management Framework for the Group was drafted by the internal auditors and was formalized in the financial year 2003. The framework covers the following initiatives, which were undertaken during the financial year:

- Holding various risk awareness discussions with key managers of the Group to understand the potential and current risks faced by the various operating companies within the Group;
- Formation of a Risk Management team headed by the Internal Auditor at the operation level with the responsibility of continuously reviewing and maintaining risk profiles identified

The risk-based management process is an ongoing process and the Board and the management is currently in the process of implementing it throughout the Group and full implementation is expected to be in place by the end of financial year 2004 or early 2005.

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CONTROL AND MONITORING PROCESS

The other key elements of the Group's internal control system include:

- An operational structure with defined line of responsibility and delegation of authority.
- A process of hierarchical reporting which provides for a documented and auditable trail of accountability;
- A documented delegation of authority with clear lines of responsibility in identifying the approving authority of various transactions;
- Internal policies and procedures which are regularly updated to reflect changing risks or resolve operational deficiencies. Instances of non-compliance with such policies and procedures are reported by its internal audit function to the Board via the Audit Committee;
- Effective reporting systems which monitor performance and highlight significant variances against budget and plan. Key variances are followed up by management and reported to the Board on a quarterly basis;
- The monitoring of control procedures through management review.
- Understanding the operations, drafting of controls and reporting systems, formalised reporting format and fixing of reporting deadlines for newly acquired business operations.
- Identifying resources required for the control environment of the newly acquired operations and reporting to the Audit Committee for its onwards recommendations to the Board.

The system of internal control that is on-going at this point of time has not resulted in any material loss, contingency or uncertainty that would require disclosure in the Group's Annual Report for the financial year under review.

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OTHER INFORMATION

SHARE BUYBACK

There was no share buyback during the financial year ended 31 December 2003.

OPTION, WARRANT AND CONVERTIBLE SECURITY

The Company did not issue any options, warrants or convertible securities in respect of the financial year ended 31 December 2003 except for the issuance of the Irredeemable Convertible Unsecured Loan Stocks (“ICULS”) on 25 August 2003 comprising 613,693,055 units of three (3) year 0.5% ICULS at a nominal value of RM0.20 each for the purpose of acquiring two (2) new subsidiaries, namely JMSB and CHSB, the acquisitions of which were completed on 25th August 2003. The information and salient features of the ICULS are disclosed in the financial statements.

SANCTION AND/OR PENALTY IMPOSED

There were no sanctions and/or penalties imposed on the Company, Directors or management by the relevant authorities during the financial year ended 31 December 2003.

MATERIAL CONTRACT AWARDED TO DIRECTOR AND/OR SUBSTANTIAL SHAREHOLDER

There were no material contracts of the Company and its subsidiaries involving Directors and major shareholders during the financial year ended 31 December 2003.

NON STATUTORY FEE PAYABLE TO EXTERNAL AUDITORS

The amount of non statutory audit fee payable by the Group to the External Auditors for the financial year under review is RM29,000.

AUDIT COMMITTEE REPORT

The Audit Committee was established in 2002 and currently comprises the following members:-

MEMBERS

Ramli Bin Harun
Chairman, Independent Non-Executive Director

Zailan Bin Othman
Member, Independent Non-Executive Director

Dato' Shamsir Bin Omar
Member, Non-Independent Executive Director

TERMS OF REFERENCE

COMPOSITION OF AUDIT COMMITTEE

The Audit Committee shall be appointed by the Board from amongst its number and shall consist of not less than three (3) members and at least one member of the Committee: -

- must be a member of the Malaysian Institute of Accountants; or
- if he is not a member of the Malaysian Institute of Accountants, he must have at least three (3) years' working experience and:-
 - he must have passed the examinations specified in Part I of the 1st Schedule of the Accountants Act, 1967; or
 - he must be a member of one of the associations of accountants specified in Part II of the 1st Schedule of the Accountants Act, 1967.
- A majority of the Committee members must be Independent Directors;
- No alternate director is to be appointed as a member of the Committee;
- The members of the Committee shall elect a chairman from amongst its number who shall be an Independent Director.

The term of office and performance of the Committee and each of its members shall be reviewed by the Board at least once every three (3) years.

OBJECTIVE

The primary objective of the Audit Committee (as a standing committee of the Board) is to assist the Board in the effective discharge of its fiduciary responsibilities for corporate governance, financial reporting and internal control.

AUDIT COMMITTEE REPORT

FREQUENCY OF MEETING

Meetings shall be held not less than three (3) times a year. The External Auditors may request a meeting if they consider that one is necessary.

The Company Secretary shall be the Secretary of the Committee.

AUDIT COMMITTEE REPORT

AUTHORITY AND POWER

The Committee is authorised by the Board to investigate any activities within its terms of reference. It is authorised to seek any information it requires from any employees and all employees are directed to co-operate with any request made by the Committee.

The Committee will seek approval from the Board to obtain independent legal or other professional advice and to secure the attendance of outsiders with relevant experience if it considers this necessary.

ROLE AND RESPONSIBILITY

The duties of the Audit Committee include the following:

- ❑ To recommend to the Board the appointment of the External Auditors, the audit fees, and matters of resignation or dismissal of External Auditors;
- ❑ To discuss with the External Auditors before the audit commences, the nature and scope of the audit and to ensure co-ordination where more than one audit firm is involved;
- ❑ To discuss problems and reservations arising from the interim and final audits and any matters the auditors may wish to discuss (in the absence of management where necessary);
- ❑ To review the quarterly results and year end financial statements prior to their approval by the Board of Directors focusing particularly on any change in accounting policies and practices:-
 - a. significant adjustments arising from the audit;
 - b. the going concern assumption;
 - c. compliance with accounting standards and other legal requirements.
- ❑ To review the External Auditors' letter to management and management's response;
- ❑ To review the adequacy of the scope, functions and resources of the internal audit function, and that it has the necessary authority to carry out its works;
- ❑ To review the internal audit programme, the results of the internal audit processes or investigation undertaken and to ensure that appropriate action is taken on the recommendations of the internal audit function;

AUDIT COMMITTEE REPORT

- ❑ To review any appraisal or assessment of the performance of the members of the internal audit function;
- ❑ To approve any appointment or termination of senior staff members of the internal audit function;
- ❑ To inform itself of resignations of internal audit staff members and provide the resignation staff member an opportunity to submit his reasons for resigning;
- ❑ To review related party transaction and conflict of interests situation that may arise within the company or the group including any transaction, procedure or course of conduct that raises questions of management integrity;
- ❑ To consider major findings of internal investigations and management's response thereon;
- ❑ To review the risk management framework; and
- ❑ To consider other topics as defined by the Board.

DETAILS OF MEETINGS

The Audit Committee met five (5) times during the financial year ended 31 December 2003 and details of attendance are as follows:

<u>Name</u>	<u>Attendance</u>	<u>%</u>
Ramli Bin Harun	5/5	100
Dato' Shamsir Bin Omar	5/5	100
Zailan Bin Othman	4/5	80

SUMMARY OF AUDIT COMMITTEE ACTIVITIES

During the financial year under review the Audit Committee:

- ❑ Reviewed the quarterly and annual unaudited financial statements of the Group and the Company prior to their submission to the Board for its consideration and approval with recommendations to the Board;
- ❑ Discussed and reviewed with the external auditors the audit plan, scope and areas of audit;
- ❑ Discussed and reviewed with the external auditors the results of their examination, their auditors' report and management letters in relation to the audit and accounting issues arising from the audit;
- ❑ Reviewed and assisted in the development and implementation of sound and effective internal controls and business systems within the Group; and
- ❑ Reviewed the Company's compliance with regards to the Revamped Listing Requirements of the MSEB and compliance with the updates of applicable Approved Accounting Standards in Malaysia.

SUMMARY OF ACTIVITIES OF INTERNAL AUDIT FUNCTION

During the financial year ended 31 December 2003, the Board resolved to out-source its internal audit function to an independent audit firm. The primary role of the internal audit

SUMMARY OF ACTIVITIES OF INTERNAL AUDIT FUNCTION

function is to undertake regular and systematic review of the systems of internal control so as to provide sufficient assurance that the Group has a sound system of internal control and that established policies and procedures are adhered to.

The risk assessment framework has been formalised but has yet to be fully put in place. However, appropriate authority limits and approving procedures are already in place in the Group. Control issues, if any, were identified and reviewed during the monthly/bi-monthly meetings and these included adequacy and effectiveness of internal control systems and cost control measures. Significant issues, if any, were tabled at the Audit Committee meetings for review.

The Audit Committee is looking into the implementation of a risk-based approach to establish a sound system of internal control in the financial year ended 2004.