

Kenyataan Pengerusi Eksekutif



Bagi pihak Lembaga Pengarah, saya dengan sukacitanya membentangkan Laporan Tahunan dan Akaun Teraudit Kumpulan dan Syarikat bagi tahun kewangan berakhir 31 Mei 2005.

PERISTIWA PENTING

Dengan tujuan utama untuk mencipta kumpulan-kumpulan perniagaan yang berbeza bagi menghapuskan konflik pengoperasian dan penduaan dan bagi meningkatkan keuntungan dalam jangka masa panjang, Kumpulan telah menamatkan latihan korporat seperti berikut sepanjang tahun kewangan:

- i) penyusunan semula modal oleh Nylex (Malaysia) Berhad ("Nylex"), sebuah subsidiari, yang melibatkan pengurangan modal dan pemisahan daripada penggabungan Tamco Corporate Holdings Berhad ("Tamco") dan subsidiari-subsidiarinya daripada kumpulan Nylex dan penyenaraian berikutnya ke Pasaran MESDAQ di Bursa Malaysia Dagangan Sekuriti Berhad dan pelupusan perniagaan Kimia Perindustrian kepada Nylex; dan
- ii). pelupusan perniagaan Logistik dan Pengangkutan Kumpulan kepada anak syarikat, Synergy Trans-Link Sdn Bhd ("STL").

Kumpulan seterusnya menjalankan dua pemerolehan besar iaitu, Nylex Specialty Chemicals Sdn Bhd dan Speciality Phosphates (Malaysia) Sdn Bhd oleh Nylex dan keduanya, pemerolehan Decom Ltd oleh Tamco.

PRESTASI KEPUTUSAN

Kumpulan mencapai perolehan yang lebih tinggi sebanyak RM1,101.6 juta (2004: RM978.7 juta) tetapi keuntungan sebelum cukai ("PBT") yang lebih rendah sebanyak RM0.6 juta (2004: RM37.9 juta) pada tahun kewangan yang dilaporkan. Selepas mengambil kira percukaian dan kepentingan minoriti, keuntungan yang boleh diagihkan kepada pemegang saham ialah RM0.1 juta (2004: RM15.8 juta). Hasil disatukan sesaham ialah 0.06 sen (2004: 8.06 sen) dan aset disatukan sesaham ialah RM1.21 pada akhir tahun kewangan (2004: RM1.05).

Untuk tahun kewangan yang dilaporkan, Lembaga mengesyorkan pembayaran dividen akhir pada anggaran 5 sen, tolak cukai pendapatan, berjumlah RM7,253,000 dengan cara pengagihan satu (1) saham perbendaharaan untuk setiap dua puluh (20) saham biasa RM1 yang sedia ada dalam Syarikat yang dipegang pada tarikh yang akan diumumkan (2004: dividen tunai 3% tolak cukai pendapatan), tertakluk pada kelulusan pemegang saham pada mesyuarat tahunan Syarikat yang akan datang.

Kenyataan Pengerusi Eksekutif (sambungan)



TINJAUAN OPERASI

Latihan korporat di atas telah memberi sumbangan positif pada pencapaian bahagian Kimia Perindustrian dan Pertanian yang merekodkan perolehan yang lebih tinggi sebanyak RM590.3 juta (2004: RM506.1 juta) dan juga PBT yang lebih tinggi sebanyak RM24.5 juta (2004: RM7.8 juta). Termasuk di dalam PBT ialah keuntungan bersih sebanyak RM8.0 juta daripada pelupusan sebidang tanah di pusat bandar Kuala Lumpur.

Saya dengan sukacitanya ingin menyebut bahawa bahagian ini sentiasa berjaya mendapatkan agensi dan pasaran baru untuk produk kimianya. Ia telah berjaya meluaskan pasaran meliputi negara-negara ASEAN, China, benua kecil India, Eropah Timur dan Amerika Selatan.

Bahagian Logistik & Pengangkutan pula menghadapi tahun yang mencabar seperti kekurangan diesel dan kenaikan harga diesel. Perkhidmatan untuk pelanggan utama terpaksa dihentikan sementara disebabkan kebakaran di gudang pelanggan. Walau bagaimanapun, bahagian ini masih berjaya merekodkan perolehan yang lebih tinggi sebanyak RM45.0 juta (2004: RM43.9 juta) dan juga PBT sebanyak RM5.5 juta (2004: RM4.9 juta).

Bahagian Teknologi Maklumat terus mencatat prestasi yang kurang memberangsangkan dengan perolehan sebanyak RM3.1 juta (2004: RM3.4 juta) dan kerugian yang lebih tinggi sebelum cukai ("LBT") sebanyak RM2.4 juta (2004:

LBT RM0.7 juta). Bahagian ini menghadapi kekurangan kontrak besar kerana persaingan sengit dan pengurangan perbelanjaan IT oleh pelanggan.

Bahagian Kejuruteraan Minyak dan Gas mencatatkan perolehan yang lebih rendah sebanyak RM22.1 juta (2004: RM23.7 juta) dan LBT sebanyak RM2.8 juta (2004: LBT RM10.6 juta).

Bahagian Polimer merekodkan perolehan yang lebih tinggi sebanyak RM118.6 juta (2004: RM117.5 juta) tetapi mengalami LBT sebanyak RM0.9 juta (2004: PBT RM8.7 juta). Jualan produk filem dan fabrik bersalut ("FCF") kekal sebagai penyumbang utama untuk jualan bagi bahagian ini. Permintaan daripada pasaran eksport ke Timur Tengah, Indonesia dan China dan dari pasaran tempatan terutamanya sektor automatif tetap kukuh dalam tahun kewangan. Walau bagaimanapun, jualan produk polimer binaan ("EP") terjejas kerana ketiadaan projek infrastruktur yang telah menjejaskan industri pembinaan. LBT adalah kerana tekanan persaingan harga dan harga tinggi bahan mentah plastik yang penting. Faktor-faktor ini sangat menjejaskan margin keuntungan bahagian ini. Termasuk dalam LBT adalah perbelanjaan sebanyak RM5.4 juta yang ditanggung oleh Nylex dalam penyusunan semula modal seperti yang disebut di atas.

Seperti yang telah dilaporkan dalam laporan saya yang terdahulu, bahagian ini telah menubuhkan sebuah syarikat usaha sama di Indonesia yang diberi nama PT Nylex



Kenyataan Pengerusi Eksekutif (sambungan)

Indonesia ("PTNI") sebagai sebahagian daripada rancangan pembinaan keupayaan. PTNI telah memulakan operasi sepanjang tahun kewangan untuk mengeluarkan polyurethane ("PU") dan polyvinyl chloride ("PVC") kulit sintetik. Kilang ini akan membolehkan Nylex memperkukuhkan kedudukannya sebagai pengeluar penting kulit sintetik PU, kain kulit PVC, filem dan kepingan-kepingan yang mempunyai nilai tambahan berkualiti untuk rantau ASEAN.

Selepas prestasi yang patut dipuji pada tahun kewangan yang lepas, bahagian Kejuruteraan telah mencapai perolehan yang lebih tinggi sebanyak RM305.6 juta (2004: RM261.7 juta) tetapi mengalami LBT sebanyak RM9.5 juta (2004: PBT RM18.7 juta). Kerugian ini berpunca daripada harga bahan mentah besi dan tembaga yang melambung tinggi. Kenaikan harga yang tidak pernah berlaku sebelum ini disebabkan permintaan dunia yang tinggi yang semakin menjadi-jadi dalam menampung perkembangan pesat ekonomi China. Harga bahan mentah dan komponen yang diimport juga meningkat disebabkan kadar pertukaran asing yang lemah, iaitu US dolar berbanding mata wang Euro dan Yen. Kerugian ini juga berpunca daripada hapus kira tuntutan pesanan variasi projek yang telah siap di Hong Kong yang dijalankan oleh subsidiarinya di Australia dan peruntukan lain yang dibuat untuk hutang ragu dan inventori usang.

Bahagian Produk Pembinaan, yang telah melupuskan aset operasi di Malaysia sepanjang tahun kewangan, telah menyumbang perolehan yang sama sebanyak RM16.5 juta (2004: RM16.3 juta). Ia mengalami LBT sebanyak RM0.5 juta (2004: LBT RM0.7 juta). Hanya subsidiari Kumpulan di Indonesia yang kini terlibat dengan pembuatan genting logam.

PROSPEK UNTUK TAHUN HADAPAN

Dalam laporannya tentang Ekonomi Malaysia untuk Suku Kedua ("Q2") 2005, Bank Negara Malaysia ("BNM") melaporkan bahawa ekonomi Malaysia berkembang pada kadar 4.1% (Q1: 5.8%) yang didorong sepenuhnya oleh aktiviti sektor swasta. Sektor perkhidmatan kekal sebagai pendorong utama pertumbuhan, dengan ia berkembang pada kadar 5.4% (Q1: 6%) yang disokong oleh perbelanjaan pengguna yang boleh dikekalkan, catatan tinggi ketibaan pelancong dan aktiviti perdagangan yang cergas. Nilai tambahan dalam sektor pembuatan berkembang pada

kadar 3.2% (Q1: 5.7%) dengan output produk kimia yang berkembang pada kadar 10.6% (Q1: 15.6%), yang didorong oleh perkembangan cergas dalam pembuatan produk plastik sebagai respon kepada permintaan kukuh dari negara-negara serantau. Nilai tambahan dalam sektor pertanian mencatat pertumbuhan pada kadar 3.2% (Q1: 6%) disebabkan perkembangan kukuh dalam pengeluaran minyak kelapa sawit. Permintaan tempatan tetap teguh, mencatat pertumbuhan pada kadar 5.6% (Q1: 5.9%) sementara inflasi mendekati paras 3% (Q1: 2.4%) menunjukkan penyesuaian kos yang muncul daripada harga input yang lebih tinggi.

BNM juga melaporkan bahawa prospek ekonomi Malaysia pada pertengahan kedua tahun 2005 tetap menggalakkan. Permintaan global dijangka boleh dikekalkan pada pertengahan kedua tahun berdasarkan penunjuk menggalakkan yang baru muncul dari Amerika Syarikat, Jepun dan kawasan-kawasan Eropah. Persekitaran luaran yang menggalakkan oleh itu dijangka akan menyokong perkembangan permintaan tempatan.

Pada Julai 2005, pautan Ringgit pada dolar US telah dimansuhkan, dan apungan terurus berdasarkan sekumpulan mata wang telah diperkenalkan yang dengannya nilai Ringgit akan ditentukan oleh asas-asas ekonomi. Memandangkan nilai Ringgit telah menjadi lebih kukuh sejak awal 2005, penilaian yang kurang yang didapati daripada susut nilai dolar US pada 2004 ada kebalikan. Ringgit sekarang berada hampir pada nilainya yang sebenar dan tidak berganjak dengan banyak dengan pelaksanaan rejim baru. BNM akan meneruskan polisi untuk memastikan kestabilan pertukaran mata wang.

Walau bagaimanapun, mengambil kira ketidaktentuan yang berkait dengan kedua-dua inflasi dan pandangan ekonomi, lebih-lebih lagi dalam hubungan impak harga minyak yang tinggi yang telah mencecah harga US\$71 setong pada Ogos 2005, Lembaga tetap optimistik dengan mengambil langkah berhati-hati dalam mengambil kira prestasi Kumpulan untuk tahun kewangan akan datang.

PERUBAHAN KEAHLIAN LEMBAGA

Encik Chieng Ing Huong telah meletakkan jawatan sebagai ahli lembaga, ahli Jawatankuasa Audit dan Jawatankuasa Imbuan dan Penamaan pada Mei 2005. Lembaga ingin merakamkan penghargaan terhadap Encik Chieng di atas

Kenyataan Pengerusi Eksekutif (sambungan)



perkhidmatannya yang tidak ternilai kepada Lembaga dan Kumpulan.

Lembaga juga ingin mengucapkan selamat datang kepada Encik Edmond Cheah Swee Leng yang telah menyertai Lembaga pada Ogos 2005. Encik Cheah, seorang Akauntan Bertauliah, juga dilantik sebagai ahli Jawatankuasa Audit dan Jawatankuasa Imbuan dan Penamaan Syarikat. Lembaga percaya bahawa Encik Cheah adalah satu penambahan bernilai kepada Lembaga.

PENGHARGAAN

Lembaga juga dengan ikhlasnya ingin melahirkan penghargaan kepada pengurusan dan kakitangan Kumpulan di atas kesetiaan, dedikasi dan sumbangan kepada Kumpulan sepanjang tahun kewangan semasa. Lembaga berharap yang mereka akan terus dengan usaha-usaha yang tidak pernah mengenal penat lelah ini untuk membawa kemajuan kepada Kumpulan pada masa hadapan.

Lembaga juga ingin memanjangkan penghargaan kepada pemegang-pemegang saham, pelanggan-pelanggan, pembekal-pembekal, pengurus-pengurus bank, rakan-rakan perniagaan dan penguatkuasa kerana telah memberi sokongan secara berterusan dan memberi kerjasama sepanjang tahun kewangan semasa.

DATO' JOHARI RAZAK

Pengerusi Eksekutif

15 September 2005

Petaling Jaya, Selangor Darul Ehsan

Statement on Corporate Governance



Introduction

Pursuant to paragraph 15.26 of the Listing Requirements of Bursa Malaysia Securities Berhad (“Listing Requirements”), the Directors are required to issue a Statement in relation to its compliance with The Code of Corporate Governance issued by the Finance Committee on Corporate Governance (“Code”).

The Board hereby state its commitment to maintain a high standard of corporate governance and upholding its fundamental duty to safeguard the Group’s assets, to enhance shareholders’ value and the financial performance of the Group.

Besides practicing good corporate governance, the Board recognizes the importance of continued effort to improve on its corporate governance practices and structure. The Board fully supports the recommendations of the Code and the Group has adhered to the principles contained therein to the extent disclosed in this Statement throughout the financial year ended 31 May 2005.

1. BOARD OF DIRECTORS

Composition

The Board was made up of eight (8) members, comprised three (3) Executive Directors and five (5) Non-Executive Directors, of whom three (3) were Independent Directors. During the financial year, the composition of the Board was in compliance with the Listing Requirements which require at least one-third (1/3) of the Board to be independent directors.

All Board members were individuals of caliber and credibility with extensive expertise and wealth of experience in legal, accounting, economics, corporate finance, marketing and business practices to chart the Group’s continued growth and success. The profile of the Directors are set out on pages 6 to 8 – Board of Directors, of this Annual Report.

Meeting and Supply of Information

During the financial year, the Board met four (4) times whereat it deliberated and considered a variety of matters including the review and approval of the Group’s Interim Financial Results announcement, performance, business plans and strategies and various corporate proposals of the Group. The Board also reviewed the adequacy of the Group’s internal control system, identified and addressed principal risks in the Group through the powers delegated to the Audit Committee.

Statement on Corporate Governance (continued)



The details of attendance of each Director at the Board meetings held during the financial year were as follows :

Name of Directors	No. of Meetings attended	% Attendance
1. Tan Sri Dato' Dr. Lin See Yan	3	75%
2. Dato' Siew Nim Chee	3	75%
3. Dato' Johari Razak	4	100%
4. Dato' Siew Ka Wei	3	75%
5. Datuk Hj Mohamed Al Amin bin Hj Abdul Majid, JP	3	75%
6. Dato' Mohd Ismail bin Che Rus	3	75%
7. Chan Thye Seng	2	50%
8. Chieng Ing Huong (Resigned on 31 May 2005)	2	50%

The Board received documents on matters requiring its consideration prior to and in advance of each meeting and vide circular resolutions. The Board papers and papers accompanying the circular resolutions were comprehensive and encompassed both quantitative and qualitative factors of the matters at hand so that informed decisions could be made. All proceedings at the Board meetings were minuted and confirmed by the Board at the subsequent meeting.

Senior management staff, as well as advisers and professionals appointed to advise the Board on corporate proposals, were invited to attend the Board meetings to provide the Board with their explanations on certain agenda items tabled to the Board, and to furnish clarification on issues that were raised by the Directors.

All Directors were vested with the rights and unlimited access to information with regard to the Group's activities.

Duties and Responsibilities

The roles of the Executive Chairman and the Group Managing Director were distinct and separate with individual responsibilities. Each of them has clearly defined duties, power and authorities. The Executive Chairman was responsible for the Group's corporate, secretarial, accounting and legal matters whereas the Group Managing Director was responsible for the Group's operational matters. Both the Executive Chairman and the Group Managing Director were subject to the control of the Board.

The Non-Executive Directors on the Board, who were not involved in the day-to-day running of the Group business operations, have enhanced the Board's objectivity in discharging its responsibility more effectively. They fulfilled their roles by providing unbiased views and independent judgements and they ensured that no minority group of Directors or an individual Director dominated the Board's discussion.

The decisions of the Board were decided by a simple majority of votes of the Directors presented at the Board meetings.

Training and Education

All Directors of the Company have completed the Mandatory Accreditation Programme and would continue to attend the Continuing Education Programme as prescribed by the Listing Requirements. The Directors will continue to undergo other relevant training programmes to further enhance their skills and knowledge where relevant.

As an integral part of the education programme for all Directors, management have updated the Directors with information on the Group's business while the Company Secretaries have provided the Directors with the relevant guidelines and updates on statutory and regulatory requirements from time to time to enhance the Directors' knowledge and awareness of the issues.

Re-election

The Articles of Association of the Company provided that a newly appointed Director is subject to retirement and is entitled to seek re-election at the first annual general meeting after his/her appointment. All Directors, except the Directors who have attained the age of 70, retire on a rotational basis once every 3 years and are entitled to offer themselves for re-election at the Company's annual general meeting with the recommendation of the Remuneration and Nomination Committee. For Directors who have attained the age of 70, they will retire at every annual general meeting pursuant to Section 129 of the



Statement on Corporate Governance (continued)

Companies Act, 1965, and were entitled to seek to be re-appointed as a Director at the annual general meeting in accordance with Section 129 (6) of the same Act. None of the Executive Directors has a service contract which the notice period for termination is more than one year.

In the case of re-election/ re-appointment of Directors at the general meeting, the Notice of Annual General Meeting, a copy of which is on pages 121 to 124 of this Annual Report, contained the name of the Directors seeking to be re-elected/ re-appointed with a brief description of his/her :

- Age and nationality
- Status (whether independent or non-independent)
- Relevant experience / qualifications / occupations
- Directorships in other listed companies
- Shareholding in the Company and its subsidiaries
- Family relationship with any directors and/or substantial shareholders of the Company
- Any conflict of interest with the Company
- Any convictions for offences within the past 10 years other than traffic offences

The motions to re-elect/re-appoint Directors will be voted on individually, unless a resolution for the appointment of 2 or more persons as directors by a single resolution shall then be passed by the annual general meeting without any vote against it.

Board Committees

In accordance with the best practices of the Code, the Board has established the following committees which operate within clearly defined terms of reference:

Audit Committee

The report of the Audit Committee is set out separately on pages 22 to 25 – Audit Committee Report, of this Annual Report.

Remuneration and Nomination Committee

The Board has decided to combine the functions of the Remuneration Committee and Nomination Committee into one Remuneration and Nomination Committee (“R&N Committee”). During the financial year, the R&N Committee comprised the following members :

Tan Sri Dato’ Dr Lin See Yan (Chairman)
Dato’ Mohd Ismail bin Che Rus
Chieng Ing Huong (Resigned on 31 May 2005)

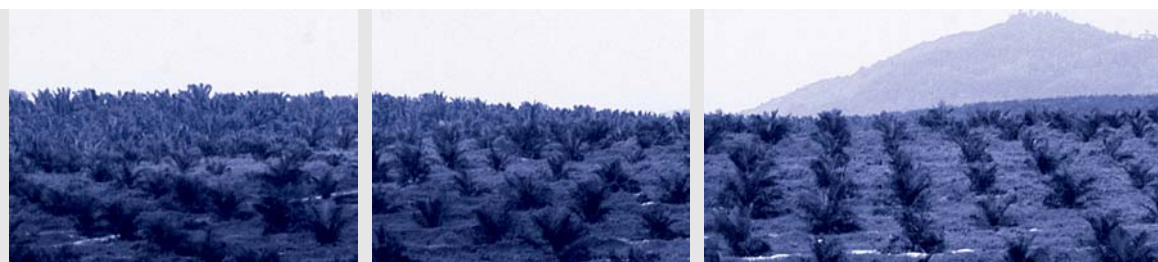
The primary responsibility of the R&N Committee was to recommend to the Board the remuneration framework for the Directors as well as the remuneration package of the Company’s Directors. The R&N Committee has taken into consideration the market practices and the individual’s contribution in deciding the remuneration package of the Directors.

It was the Group’s practice that the Executive Directors are to be rewarded after taking into account the Group’s financial performance as well as market comparison and competitive pressures in the industry. For Non-Executive Directors, the level of remuneration reflected the amount paid by other comparable organizations. The Board would ultimately decide the remuneration of the Directors. The Directors’ fees would be endorsed by the Board for approval by the shareholders at the annual general meeting.

The R&N Committee was also responsible for identifying, recruiting and making recommendations to the Board on all new Board and Board Committee appointments and the re-election/re-appointment of retiring Directors. The R&N Committee had assessed the effectiveness of the Board and the contributions of each Director towards the effectiveness of the Board’s decision-making process.

No new appointments were made by the Board during the financial year under review.

Statement on Corporate Governance (continued)



2. DIRECTORS' REMUNERATION

The breakdowns of the remuneration received and receivable by the Directors from the Company and its subsidiary companies during the financial year were as follows:

(a) Total remuneration :

		Executive Director	Non-Executive Director	Total
Fees	RM'000	35	331	366
Salaries	RM'000	2,549	-	2,549
Other emoluments	RM'000	2,217	69	2,286
Benefits-in-kind	RM'000	67	-	67
Total	RM'000	4,868	400	5,268

(b) Number of Directors whose remuneration falls into the following bands :

	Executive Director	Non-Executive Director	Total
Less than RM50,000	-	1	1
RM50,000 to RM100,000	-	4	4
RM350,000 to RM400,000	1	-	1
RM1,500,000 to RM1,550,000	1	-	1
RM2,900,000 to RM2,950,000	1	-	1
Total	3	5	8

3. SHAREHOLDERS

Investors' Relations and Shareholders' Communication

The Company maintained a policy of disseminating information that is material for shareholders' attention. During the financial year, various announcements, including the Quarterly Interim Financial Results Announcements, were made to ensure that information is disseminated to the shareholders, stakeholders and investors on a timely basis.

Dato' Mohd Ismail bin Che Rus, the Senior Independent Non-Executive Director, is the Director to whom any queries or concerns may be conveyed to by post at 102-1002, Blok A, Pusat Dagangan Phileo Damansara I, No.9 Jalan 16/11, Off Jalan Damansara, 46350 Petaling Jaya, Selangor Darul Ehsan, Malaysia or fax at 603-7660 1151 or e-mail at corp@ancom.com.my.

General Meeting

The annual general meeting ("AGM") remains the principal forum for communicating with shareholders. It has been the Company's practice to send the Notice of AGM and the related papers to the shareholders and to advertise the Notice of AGM in an English newspaper at least twenty-one (21) days before the AGM.



On other general meetings, circulars to shareholders together with the notices of the meeting were sent to the shareholders and were advertised in an English newspaper within the prescribed deadlines in accordance with the regulatory and statutory provisions.

The Company had held its AGM and other general meetings at places that were easily accessible and at a time convenient to the shareholders to encourage them to attend the meetings. At the meetings, the shareholders were given the opportunity to raise questions on the Group's activities and prospects as well as to communicate their expectations and concerns to the Company. Proceedings of the meetings were properly minuted and the minutes are subject to shareholders' inspection in accordance with the Companies Act, 1965.

4. ACCOUNTS AND AUDIT

Financial Reporting

The Board took responsibility in ensuring that the financial statements of the Group and the Company give a true and fair view of the state of affairs of the Group and the Company. The Board was responsible for ensuring that the financial statements were drawn up in accordance with the provisions of the Companies Act, 1965, the Listing Requirements, the standards approved by the Malaysia Accounting Standards Board and the other statutory and regulatory requirements.

The Group's Quarterly Interim Financial Results Announcements and the Annual Audited Financial Statements were reviewed by the Audit Committee and approved by the Board prior to their releases to Bursa Malaysia Securities Berhad within the stipulated time frame.

Internal Control

The Board acknowledged its overall responsibility for ensuring that a sound system of internal control has been maintained throughout the Group and the need to review its effectiveness regularly to safeguard the Group's assets and shareholders' investments. The Board recognized that risks cannot be totally eliminated and the system of internal control instituted could only help minimize and manage risks. Shareholders must take cognizance that the internal control system, by nature, could only provide reasonable but not absolute assurance against loss.

The Audit Committee has been empowered to assist the Board in discharging its duties in relation to internal control. In addition, Moores Rowland Risk Management Sdn Bhd has been appointed as the Group's Internal Auditors to review the Group's internal control during the financial year. The Internal Auditors reported to the Audit Committee who shall determine their remuneration.

The Audit Committee Report is separately set out on pages 22 to 25 of this Annual Report while the scope and results of the internal audit review by the Audit Committee are detailed in the Statement on Internal Control on pages 26 to 27 of this Annual Report.

Relationship with Auditors

The Company has established transparent relationship with its external and internal auditors. The Audit Committee acted as an independent channel of communication for the auditors to convey their objective views and professional advice on the Group's financial and operational activities.

The Audit Committee recommended the appointment of the external auditors and approved their remuneration. The appointment of the external auditors was subject to the approval of the shareholders at the AGM. The external auditors have an obligation to bring any significant matters relating to the financial audit of the Group to the Audit Committee. They were invited to attend the Audit Committee's meeting when necessary.

Audit Committee Report



Pursuant to paragraph 15.16 of the Listing Requirements of Bursa Malaysia Securities Berhad (“Listing Requirements”), the Board has pleasure in submitting its Audit Committee Report for the financial year ended 31 May 2005.

1. TERMS OF REFERENCE

Composition

The Audit Committee shall be appointed by the Board from amongst its members and shall comprise at least three (3) Directors. The majority of the members of the Audit Committee shall be Independent Non-Executive Directors.

At least one member of the Audit Committee shall be a member of Malaysian Institute of Accountants or a person approved under Section 15.10(1)(c)(ii) of the Listing Requirements. No alternate director shall be appointed as a member of the Audit Committee.

The Chairman of the Audit Committee shall be elected from amongst the members and he shall be an Independent Director. If a member of the Audit Committee resigns or for any reason ceases to be a member resulting in the number of members being less than the required number, the Board shall appoint such number of new members as may be required to make up the minimum number of members within three (3) months of that event. All members of the Audit Committee including the Chairman shall hold office until otherwise determined by the Board or until they cease to be a Director of the Company.

One of the Company Secretaries shall be the Secretary of the Audit Committee.

Functions

The Audit Committee shall discharge the following functions:

- (A) Review the following and report same to the Board of Directors of the Company:
- with the external auditors, the audit plan, the scope of work and ascertain that it will meet the needs of the Board, the shareholders and the authorities ;
 - with the external auditors, their evaluation of the quality, effectiveness and the integrity of the Group's system of internal control ;
 - with the external auditors, their audit report including management letter on internal control weaknesses and the management's responses thereof ;
 - the assistance given by the employees of the Company to the external auditors ;
 - the adequacy of the scope, functions and resources of the internal audit functions and that it has the necessary authority to carry out its work ;
 - the internal audit program, processes, the results of the internal audit program, processes and investigation undertaken and whether or not appropriate actions have been taken on the recommendations of the internal audit functions ;
 - the quarterly results and year end financial statements, prior to the approval by the Board of Directors, focusing particularly on :
 - (a) changes in or implementation of major accounting policy changes ;
 - (b) significant and unusual events ;
 - (c) compliance with accounting standards and other legal requirements, and the going concern assumption ; and
 - (d) the accuracy and adequacy of the information disclosed ;



- any related party transactions and conflict of interest situations that may arise within the Group and with any related parties outside the Group including any transaction, procedure or course of conduct that raises questions of management integrity ;
 - any letter of resignation from the external auditors of the Company ;
 - whether there is a reason (supported by grounds) to believe that the Company's external auditors are not suitable for reappointment ;
 - nomination of external auditors and to fix their terms of appointment and remuneration ; and
 - any other matters as directed by the Board of Directors from time to time.
- (B) In discharging the above functions, the Audit Committee shall at the cost of the Company :
- have the authority to investigate any matter within its terms of reference;
 - have the resources which are required to perform its duties;
 - have full and unrestricted access to any information pertaining to the Group;
 - have direct communication channels with the external auditors and persons carrying out the internal audit functions;
 - be able to obtain independent professional and other advices and to secure the attendance of outsiders with relevant experience and expertise if it considers necessary; and
 - be able to convene meeting with the external auditors excluding the attendance of the executive member of the Audit Committee, whenever deemed necessary.

Meeting

The Audit Committee shall meet four (4) times a year and additional meetings may be convened as and when deemed necessary. The quorum for each meeting shall be two (2) members, all of whom must be Independent Directors. Agenda shall be sent to all members of the Audit Committee and any other persons who may be required to attend the meeting at least seven (7) days prior to the meeting unless the members in the meeting waive such requirement. The Audit Committee may invite other Directors and employees of the Group to attend any meeting, as it deems fit.

Decision of the Audit Committee shall be by a majority of votes. In the case of equality of votes, the Chairman, or if he is absent, the Chairman of the meeting elected from amongst the members attending the meeting, shall have a second and casting vote.

Minutes

Minutes of each meeting, signed by the Chairman of the meeting at which the proceedings were held or by the Chairman of the next succeeding meeting, shall be deemed a correct recording of the proceedings thereat without any further proof of the fact stated thereof. The Secretary shall keep the minutes. Copies of the minutes shall be distributed to all members of the Audit Committee and the Board of Directors for information.

2. COMPOSITION

During the financial year, the Committee comprised two (2) Independent Non-executive Directors and one (1) Executive Director as follows :

- | | |
|---|--------------------------------------|
| • Dato' Mohd Ismail bin Che Rus
<i>(Chairman)</i> | - Independent Non-Executive Director |
| • Dato' Johari Razak
<i>(Member)</i> | - Executive Chairman |
| • Chieng Ing Huong
<i>(Member)– Member of the Malaysian
Institute of Accountants (MIA)</i> | - Independent Non-Executive Director |

Chieng Ing Huong resigned from the Board and Audit Committee on 31 May 2005. Edmond Cheah Swee Leng, an Independent Non-Executive director, was appointed to the Audit Committee on 30 August 2005. Edmond Cheah Swee Leng is a member of MIA.



3. MEETING AND ATTENDANCE

The Audit Committee held three (3) meetings during the financial year which is one meeting short of the required number of meetings due to the absence of a quorum. The Board has itself taken the responsibility to review and approve the Quarterly Interim Financial Results Announcement and the Internal Audit Progress Report in view of the Audit Committee meeting was not able to be convened. The internal auditors and the external auditors attended one (1) and two (2) Audit Committee meetings respectively. The attendance of the Audit Committee members at the meetings held during the financial year was as follows:

Members	No. of meetings attended	% attendance
Dato' Mohd Ismail bin Che Rus	3	100
Dato' Johari Razak	3	100
Chiang Ing Huong	3	100

4. SUMMARY OF ACTIVITIES

The Audit Committee carried out its duties in accordance with its Terms of Reference during the financial year ended 31 May 2005. These included, inter-alia, the review of the following :

Financial Results

- The Quarterly Interim Financial Results Announcement with management to ensure that Announcements adhered to regulatory reporting requirements. The Audit Committee also took appropriate actions to resolve all accounting matters requiring judgement and made recommendations to the Board of Directors to adopt the Quarterly Interim Financial Results Announcement ;
- The Annual Audited Financial Statements with the external auditors prior to submission for approval by the Board of Directors. The review was, inter-alia, to ensure that the Annual Audited Financial Statements complied with the provisions of the Companies Act, 1965, the Listing Requirements, the approved accounting standards of the Malaysian Accounting Standards Board ("MASB") and other statutory and regulatory requirements ;

External / Internal Audits

- The Statutory Audit Plan with the external auditors taking into cognizance the emerging financial reporting issues pursuant to the introduction of new MASB standards and additional statutory / regulatory disclosure requirements ;
- Significant financial matters that came to the attention of the external auditors in their course of work. Appropriate actions have been taken to resolve same ;
- The Internal Audit Plan with the internal auditors ;
- Significant internal control issues highlighted by the internal auditors, the management's responses in relation thereto and the measures taken by management to rectify the weaknesses and to strengthen the existing risk management process ;
- The external and internal auditors' fees and made recommendation for their reappointment to the Board of Directors.

Related Party Transactions

- The related party transactions entered into by the Company and the Group.

During the respective Board of Directors' Meeting, the Chairman of the Audit Committee briefed the Board on issues raised in respect of the internal audit and internal control, the Quarterly Interim Financial Results Announcements, Annual Audited Financial Statements and the recommendations of the Committee thereon.



5. INTERNAL AUDIT FUNCTION

During the financial year, the Board appointed Moores Rowland Risk Management Sdn Bhd as the Group's Internal Auditors for the financial year 1 June 2004 to 31 May 2005. The Internal Auditors reported to the Audit Committee and indirectly assisted the Board of Directors in monitoring and managing risks and internal control of the Group.

The internal audit function adopted a risk based approach in the planning and conducting of internal audits. In addition to assisting in evaluating and reporting on the Group's principal business risks, the Internal Auditors also assisted the Audit Committee in ensuring the risk management mechanisms were pro-actively embedded within the Group's existing operational framework.

Amongst the responsibilities of the Internal Auditors were:

1. to assist the Board in reviewing the adequacy, integrity and effectiveness of the Group's internal control system for the Board to make a fair Statement on Internal Control in the Annual Report;
2. to support the Audit Committee in identifying and evaluating the existing internal control system and consequently to determine the future requirements for internal control system and to co-develop a prioritized action plan;
3. to perform a risk assessment of the Group to identify the business processes within the Group that internal audit function should focus on; and
4. to allocate audit resources to areas within the Group that provide the management and the Audit Committee with efficient and effective level of audit coverage.

At each of the Audit Committee meeting, the Internal Auditors reported to the Audit Committee their findings with highlight on weaknesses noted, their recommendations of the corrective action to be taken by the management and the management's response on the findings and recommendations. In subsequent Internal Audit Progress Reports, the Internal Auditors had reported their findings in the follow up reviews to the Audit Committee.

6. CONCLUSION

Based on the above, the Audit Committee is of the opinion that it has discharged its duties in accordance with the Terms of Reference as established above.

Please refer pages 26 to 27 of this Annual Report for the Statement on Internal Control.

Statement on Internal Control



INTRODUCTION

As required under the Malaysian Code on Corporate Governance, listed companies are to maintain a sound system of internal control to safeguard shareholders' investments and the companies' assets.

In accordance with paragraph 15.27(b) of the Listing Requirements of Bursa Malaysia Securities Berhad ("Listing Requirements"), the Board is pleased to provide the following Statement on Internal Control of the Group for the financial year ended 31 May 2005.

This Statement has been prepared in accordance with the "Statement on Internal Control – Guidance for Directors of Public Listed Companies" issued by the Institute of Internal Auditors, Malaysia and with the support and endorsement of Bursa Malaysia Securities Berhad.

For the purpose of this Statement, the Group refers to the Company and its subsidiary companies, excluding the associated companies. This Statement does not cover the associated companies as the Company does not have control over the operations, management and internal control system of these companies.

RESPONSIBILITY FOR INTERNAL CONTROL

The Board affirms its overall responsibility for the Group's internal control system and for reviewing its adequacy and integrity.

The Board also recognizes the importance of sound internal control for good corporate governance. However, it should be recognized that a system of internal control is designed to manage and mitigate rather than to eliminate the risk that may impede the achievement of business objectives and the cost of control procedures should not outweigh or exceed the benefits to be gained from such control procedures. Due to these inherent limitations, the internal control system can only provide reasonable and not absolute assurance against material misstatement of management or financial information or against financial losses or frauds.

KEY ELEMENTS OF INTERNAL CONTROL

During the financial year ended 31 May 2005, the Group has in place a risk-based internal control system, embedded in the operations of the business with sufficient assurance mechanism to safeguard the Group's assets and to preserve shareholders' investments. The Group has also implemented good governance practices to achieve a sound internal control system. These practices included:

- **Organization Structure and Responsibility Levels**

The Group's operating functions have been aligned under appropriate divisions based on the industries within which they operate, each headed by a Divisional Managing Director who is "hands-on" in running the respective division. The Group has defined the management structure with clear lines of accountability and authority. It has in place an organization structure with key responsibilities clearly and properly segregated as well as clear reporting lines within each division. Experienced and competent staff are placed in positions of responsibility to ensure that the objectives of the Group's internal control system are achieved.

- **Audit Committee and Internal Audit**

The Audit Committee is established with a view to assist and to provide the Board with added focus in discharging the Board's duties and responsibilities in relation to internal control. To assist the Audit Committee to discharge its duties and responsibilities, the Board had outsourced the internal audit function to an independent professional accounting firm.

The internal audit function has carried out a risk assessments of the Group's key business processes to determine internal audit plan which primarily covered the areas of internal audit focus. Periodic audit visits have been carried out, based on the audit plan that had been reviewed and approved by the Audit Committee, to monitor compliance with the Group's procedures and to gain assurance on the effectiveness of the Group's internal control system.

As part of the review process, the internal auditors advised operational management on weaknesses noted and recommended corrective actions to improve the internal control system. Follow-up reviews were performed subsequently by the internal auditors to determine the extent to which the recommendations have been implemented.

Reports on the internal audit reviews were presented to the Audit Committee and the Board. The Audit Committee was satisfied that there were continuous effort by management to address and resolve areas with control weaknesses and that the control procedures were in place and were being followed.

- **Risk Management**

The Group's operations involved management of a wide range of risks. The Board is responsible for identifying business risks and in ensuring the implementation of appropriate systems to manage these risks. In doing so, the Board, through the Audit Committee and the internal audit function, had reviewed the adequacy and integrity of the Group's internal control system and management information system, including systems for compliance with applicable laws, regulations, rules, directives and guidelines.

- **Reporting and Review**

The Group has in place a management reporting mechanism whereby financial information is generated for management review on a timely basis. The Executive Chairman and the Group Managing Director met with the Divisional Managing Directors and senior management regularly to discuss and resolve operational, corporate, financial and key management issues.

The announcements of the interim financial report of the Group were made only after being reviewed by the Audit Committee and approved by the Board.

- **Group Policies and Procedures**

The Group's Policies and Procedures are a formal guide to the management and employees of the Group in carrying out their day-to-day duties. The Group's Policies and Procedures cover the following core areas: authority limits and authorization mandates, protection and maintenance of assets, human resources management, sales, financial, procurement and operations. The Limits of Authority in the Group's Policies and Procedures will delineate authority limits to the appropriate persons to ensure accountability and segregation of duties.

CONCLUSION

The Board is satisfied that, during the financial year ended 31 May 2005, there was a continuous process in identifying, evaluating and managing significant risks faced by the Group. The Board believes that the internal control system had continued to operate effectively in the financial year under review.

The Board recognizes the importance of operating an internal control system that supports the business objectives of the Group. As the Group operates in a dynamic business environment and continues to grow and evolve, the Board will continue to assess the suitability of the Group's internal control system and will make enhancements to the system, as and when necessary.

Directors' Responsibilities Statement on Financial Statements



In accordance with the Companies Act, 1965, the Directors of the Company are required to prepare financial statements for each financial year which shall give a true and fair view of the state of affairs of the Company and of the Group as at the end of the financial year and of the profit and loss of the Company and of the Group for the financial year.

Pursuant to paragraph 15.27(a) of the Listing Requirements of Bursa Malaysia Securities Berhad ("Listing Requirements"), the Directors are required to issue a Statement explaining their responsibilities in the preparation of financial statements.

The Directors hereby state that they are responsible to ensure that the Company and the Group keep proper accounting records to enable the Company to disclose, with reasonable accuracy and without any material misstatement, the financial position of the Company and of the Group as at 31 May 2005 and the profit and loss of the Company and the Group for the financial year ended 31 May 2005. The Directors are also responsible to ensure that the financial statements comply with the Companies Act, 1965 and the relevant accounting standards, the Listing Requirements and other statutory and regulatory requirements.

In preparing the financial statements for the financial year ended 31 May 2005, the Directors have:

- adopted the appropriate accounting policies, which are consistently applied;
- made judgements and estimates that are reasonable and prudent;
- adopted all applicable accounting standards. Material departures, if any, will be disclosed and explained in the financial statements; and
- prepared the financial statements on the assumption that the Company and the Group will operate as a going concern.

The Directors have provided the auditors with every opportunity to take all steps, undertake all inspections and seek all explanations they considered appropriate to enable them to give their audit report on the financial statements.