



STATEMENT ON CORPORATE GOVERNANCE

The Board is committed to maintaining 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. As such, the Board recognizes the importance of practising good corporate governance and of continued effort to improve on its corporate governance practices and structure. The Board fully supports the recommendations of The Code of Corporate Governance issued by the Finance Committee on Corporate Governance ("Code") and the Group has adhered to the principles contained herein throughout the financial year ended 31 May 2004 to the extent described in this Statement on Corporate Governance.

1. BOARD OF DIRECTORS

Composition

The Board currently has eight (8) members comprising an Executive Chairman, a Group Managing Director, an Executive Director and five (5) Non-Executive Directors, of whom three (3) are independent directors. The Board is satisfied that the number of independent directors is sufficient to fairly reflect the investment of the minority shareholders.

All Board members are individuals of caliber and credibility. They are professionals from diverse disciplines, qualifications and experiences in legal, accounting, economics, corporate finance, marketing and business practices. Together, they play an instrumental role to the Group's continued growth and success. Their profiles are set out in pages 3 to 6 of this Annual Report.

Meeting and Supply of Information

The Board met five (5) times during the financial year, during which it reviewed and approved various issues including the Group's interim results announcements, the performance, business plan and strategy of the Group and various corporate proposals. 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.

The details of attendance of each Director at the Board meetings held during the financial year are set out in pages 3 to 6 of this Annual Report.

All Directors are provided with an agenda and a set of Board papers prior to each Board meeting to be convened. Board papers are circulated in advance to give the Directors sufficient time to understand and appreciate each issue to be deliberated at the Board meeting and expedites decision-making process.

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

All Directors have full and unlimited access to the advice and services of the Company Secretaries. They are regularly updated by the Company Secretaries on new statutory or regulations requirements concerning their duties and responsibilities.

Duties and Responsibilities

There is a clear distinction of roles between the Executive Chairman and the Group Managing Director. The Executive Chairman is responsible for the Group's reporting functions, the secretarial, accounting and legal matters whereas the Group Managing Director is responsible for the Group's daily operational matters. Both the Executive Chairman and the Group Managing Director were subject to the control of the Board.

Non-Executive Directors play a key supporting role, contributing their knowledge and experience in the decision-making process. 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.



STATEMENT ON CORPORATE GOVERNANCE (cont'd)

Directors' Training

All Directors of the Company have completed the Mandatory Accreditation Programme and will continue to attend the Continuing Education Programme as prescribed by the Listing Requirements of Bursa Malaysia Securities Berhad ("Listing Requirements").

As an integral part of the education programme for all Directors, management would update the Directors with information on the Group's business while the Company Secretaries would provide the Directors with the relevant guidelines on statutory and regulatory requirements that would have an effect on the Company and the Group from time to time.

Re-election

The Articles of Association of the Company provide 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 three years and are entitled to offer themselves for re-election at the Company's annual general meeting. For Directors who have attained the age of 70, they will retire at every annual general meeting and subject to Section 129(6) of the Companies Act, 1965, are entitled to offer themselves for re-election. 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 of Directors at the general meeting, the notice of general meeting will state the name of the Directors seeking to be re-elected 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 Directors are voted on individually.

Board Committees

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

- **Audit Committee**

The Report of the Audit Committee are set out separately in pages 11 to 14 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"). The R&N Committee comprises the following members:

Tan Sri Dato' Dr Lin See Yan (*Chairman*)
Dato' Mohd Ismail bin Che Rus
Chieng Ing Huong

The primary responsibility of the R&N Committee is to recommend to the Board the remuneration package of the Company's Directors. The R&N Committee will take into consideration the market practices and the individual's contribution, in addition to the professional advice obtained in discharging their duties.



STATEMENT ON CORPORATE GOVERNANCE (cont'd)

It is 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 reflects the amount paid by other comparable organizations. The Board will ultimately decide the remuneration of the Directors. The Directors' fees are endorsed by the Board for approval by the shareholders at the annual general meeting.

The R&N Committee is also responsible for identifying, recruiting and making recommendations to the Board on all new Board and Board Committee appointments and the re-election of retiring Directors. The R&N Committee will assess the effectiveness of the Board and the contributions of each Director towards the effectiveness of the Board's decision-making process.

2. DIRECTORS' REMUNERATION

The breakdowns of the remuneration received and receivable by the Directors from the Company and its subsidiaries during the financial year are as follows:

(a) Total Remuneration:

		Executive Director	Non-Executive Director **	Total
Fees	RM'000	12	324	336
Salaries	RM'000	2,430	-	2,430
Other emoluments	RM'000	1,093	76	1,169
Benefits-in-kind	RM'000	67	-	67
Total	RM'000	3,602	400	4,002

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

	Note	Executive Director No.	Non-Executive Director ** No.	Total No.
Less than RM50,000	1	-	2	2
RM50,000 to RM100,000	2	-	4	4
RM350,000 to RM400,000	3	1	-	1
RM1,300,000 to RM1,350,000	4	1	-	1
RM1,850,000 to RM1,900,000	5	1	-	1
Total		3	6	9

** Including payment to the estate of the late Chairman of the Company, YABM Raja Tun Mohar bin Raja Badiozaman

Note 1 : Estate of the late YABM Raja Tun Mohar bin Raja Badiozaman and Chan Thye Seng

Note 2 : Tan Sri Dato' Dr Lin See Yan, Datuk Hj Mohamed Al Amin bin Hj Abdul Majid, JP,
Dato' Mohd Ismail bin Che Rus and Chieng Ing Huong

Note 3 : Dato' Siew Nim Chee

Note 4 : Dato' Johari Razak

Note 5 : Dato' Siew Ka Wei

3. SHAREHOLDERS

Investors' Relations and Shareholders' Communication

The Board acknowledges the need for shareholders, stakeholders and investors to be informed of all material business and developments concerning the Group. During the financial year, the Board had ensured timely and adequate dissemination of information to be provided to shareholders, stakeholders and investors on the Group's performance and operations.



STATEMENT ON CORPORATE GOVERNANCE (cont'd)

In addition, shareholders, stakeholders and investors who wish to convey their concerns or queries on the Company and the Group may contact the Senior Independent Non-Executive Director, Dato' Mohd Ismail bin Che Rus, 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 related documents to shareholders at least twenty-one (21) days before the meeting and the notice of AGM would also be advertised in an English newspaper.

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

The Company would hold its AGM and other general meetings at places that are easily accessible and at a time convenient to the shareholders to encourage them to attend the meetings. They are also given the opportunity to ask questions during the meetings. Proceedings of the meetings are 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 takes 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 annual reports and the interim results announcements were prepared in accordance with the requirements 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 Audit Committee assists the Board in ensuring accurate and adequate disclosures are contained in all annual reports and interim results announcements and financial reports.

Internal Control

The Board recognizes the importance of an effective system of internal control to safeguard the shareholders' investments and the Group's assets. The Group has in place a system of internal control designed to meet the Group's needs to manage and mitigate the risks to which the Group is exposed. Nevertheless, the Board recognizes that risks cannot be eliminated completely, therefore, the system and process put in place would have to be aimed at minimizing and managing the risks. Shareholders must take cognizance that the internal control system, by nature, can only provide reasonable but not absolute assurance against loss.

The Audit Committee has been empowered to assist the Board in discharging the duties in relation to internal control. In addition, Ernst & Young has been appointed as Internal Auditors to review the Group's internal control during the financial year. The Internal Auditors report to the Audit Committee who shall determine their remuneration.

The report of the Audit Committee is separately set out in pages 11 to 14 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 in pages 15 to 16 of this Annual Report.

Relationship with Auditors

Through the Audit Committee, the Company has always maintained a close and transparent relationship with the Group's external auditors. The Audit Committee recommends the appointment of the external auditors and approves their remuneration. The appointment of the external auditors is subject to the approval of the shareholders at the AGM. The external auditors independently report to the Audit Committee and from time to time, bring to their attention all matters relating to the financial audit of the Group. They are invited to attend the Audit Committee's meeting when necessary.



AUDIT COMMITTEE REPORT

1. CONSTITUTION

On 2 July 1994, the Audit Committee was established by the Board to assist the Board to fulfill its fiduciary responsibilities relating to internal control, corporate accounting and reporting practices of the Company and its subsidiaries ("Group"). Appropriate practices have been adopted by the Group to maintain the desired standards of responsibility, integrity and accountability to the Company's shareholders thereby to strengthen the public's confidence in the Group's reported results.

2. COMPOSITION

The members of the Audit Committee during the financial year are:

- Dato' Mohd Ismail bin Che Rus
(Chairman, Independent Non-Executive Director)
- Dato' Johari Razak
(Member, Executive Chairman)
- Chieng Ing Huong
(Member, Independent Non-Executive Director)

As required by the Listing Requirements of Bursa Malaysia Securities Berhad ("Listing Requirements"), the Audit Committee consists of not fewer than three (3) members and a majority of whom are Independent Directors. The Chairman of the Audit Committee, Dato' Mohd Ismail bin Che Rus, is an Independent Director and one of the members of the Audit Committee, Mr. Chieng Ing Huong, is a member of the Malaysian Institute of Accountants ("MIA").

No alternate directors are appointed as members of the Audit Committee.

3. TERMS OF REFERENCE

Composition

The Audit Committee shall be appointed by the Board from amongst its members and shall comprise of 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 MIA 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 systems of internal control;



AUDIT COMMITTEE REPORT (cont'd)

Functions (cont'd)

(A) Review the following and report same to the Board of Directors of the Company: (cont'd)

- 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.

AUDIT COMMITTEE REPORT (cont'd)

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.

4. MEETING AND ATTENDANCE

The Audit Committee held five (5) meetings during the financial year. The internal auditors and the external auditors attended five (5) and three (3) Audit Committee meetings respectively. The attendance of the Audit Committee members at the meetings is as follows:

Members	No. of Meetings Attended	%
Dato' Mohd Ismail bin Che Rus	5	100
Dato' Johari Razak	4	80
Chieng Ing Huong	5	100

5. SUMMARY OF ACTIVITIES

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

Financial Results

- The quarterly interim results announcement to ensure that they adhere to regulatory reporting requirements. The Audit Committee also made appropriate actions to resolve all accounting matters requiring significant judgment and to make recommendations to the Board of Directors to adopt the quarterly interim results announcements;
- The annual audited financial statements with the external auditors prior to submission for approval of 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 Standard Board ("MASB") and other statutory and regulatory requirements;

External / Internal Audits

- The external audit plan with the external auditors taking into cognizant the emerging financial reporting issues pursuant to the introduction of new MASB standards and additional statutory / regulatory disclosure requirements;
- Significant financial matters coming to the attention of the external auditors in their course of work and to take appropriate action to resolve same;
- The internal audit plan with the internal auditors, based on the results of the risk-based assessment of the Group's system of internal control.



AUDIT COMMITTEE REPORT (cont'd)

External / Internal Audits (cont'd)

- Significant internal control issues highlighted by the internal auditors and 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 to make recommendation for their reappointment to the Board of Directors.

During the respective Board 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 results announcements, financial statements and the recommendations of the Committee thereon.

6. INTERNAL AUDIT FUNCTION

As reported in the previous year's Audit Committee Report, the Board had appointed Ernst & Young ("E&Y") as the Group's Internal Auditors for a period of 3 years covering the financial years 1 June 2001 to 31 May 2004. The Internal Auditors report to the Audit Committee and indirectly assist the Board of Directors in monitoring and managing risks and internal controls.

The Group's internal audit adopts risk based approach in the planning and conduct of internal audits. In addition to assisting in evaluating and reporting on the Group's principle business risks, the internal audits also assist the Audit Committee in ensuring the risk management mechanisms are pro-actively embedded within the Group's existing operational framework.

Amongst the responsibilities of the Internal Auditors are:

1. to assist the Board in reviewing the adequacy, integrity and effectiveness of the Group's internal control system for the Board to make an accurate 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 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.

During the financial year, the Audit Committee approved the internal audit plan and received four (4) internal audit progress reports from E&Y.

At each of the Audit Committee meeting, E&Y reported to the Audit Committee their findings with highlight on weaknesses noted, their recommendations as to the types of corrective action to be taken by the management and the management's response on the findings and recommendations. In subsequent internal audit progress reports, E&Y will report on their findings on the follow up reviews to the Audit Committee.

7. 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 15 to 16 of this Annual Report for the Statement on Internal Control.



STATEMENT ON INTERNAL CONTROL

1. INTRODUCTION

The Board is pleased to provide the following Statement on the state of internal control of the Group. The Malaysian Code on Corporate Governance requires listed companies to maintain a sound system of internal control to safeguard shareholders' investment and the Group's assets. The Board, too, acknowledges its overall responsibility for the Group's system of internal control and for reviewing its adequacy and integrity.

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 systems of these companies.

2. RESPONSIBILITY FOR INTERNAL CONTROL

The Board is responsible for the Group's system of internal control and for reviewing its adequacy and integrity. The system of internal control is aimed at safeguarding the Group's assets and shareholders' investments.

Notwithstanding that, there are inherent limitations to any system of internal control as they are designed to manage and mitigate rather than to eliminate the risk that may impede the achievement of business objectives. The system of internal control can therefore only provide reasonable and not absolute assurance against material misstatement of management or financial information or against financial losses or frauds. It should also be recognized that the cost of control procedures should not outweigh or exceed the benefits to be gained from such control procedures.

3. KEY ELEMENTS OF INTERNAL CONTROL

The Group has in place a risk-based system of internal control, 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 and is committed to achieving a sound system of internal control. These include:

- **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 and up to the Board. Experienced and competent staff are placed in positions of responsibility to support the effectiveness of the Group's system of internal control.

- **Audit Committee and Internal Audit**

The Audit Committee was established with a view to assist and to provide the Board with added focus in discharging the Board's duties and responsibilities. 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.

Following the appointment of the internal audit function, risk assessments of the Group's key business processes were carried out to determine the areas of internal audit focus. Periodic audit visits were 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 provide assurance on the effectiveness of the Group's system of internal control.

The internal auditors advised executive and operational management on areas for improvement and subsequently performed a follow-up review to determine the extent to which the recommendations have been implemented.



STATEMENT ON INTERNAL CONTROL (cont'd)

3. KEY ELEMENTS OF INTERNAL CONTROL (cont'd)

- **Audit Committee and Internal Audit (cont'd)**

The Audit Committee also ensures there is continuous effort by management to address and resolve areas with control weaknesses. Reports on findings of the internal audit visits are presented to the Audit Committee. This provides reasonable assurance that control procedures are in place and are being followed.

- **Risk Management**

The Group's operations involve 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, reviews the adequacy and integrity of the Group's internal control systems and management information systems, 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 meet with the Divisional Managing Directors and senior management regularly to discuss and resolve operational, corporate, financial and key management issues.

The announcement of the quarterly results of the Group is only made after being reviewed by the Audit Committee and approved by the Board.

- **Group Policies and Procedures**

The Group's Policies and Procedures are being revised, rationalized and formalized. It will be 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 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.

4. CONCLUSION

The Board is satisfied that, during the financial year under review, there was a continuous process in identifying, evaluating and managing significant risks faced by the Group. The Board is of the opinion that the existing internal control systems were adequate to achieve the above objectives.

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