



# review of business operations



## review of business operations

### PROPERTY DEVELOPMENT

The Group's steadfast and tireless commitment to well-designed and affordable properties continued during the financial year ended 31 March 2005.

Its core competency in property development is best exemplified in the four flagship projects which form the backbone of Bandar Putra Permai in Seri Kembangan. These flagship projects, namely Taman Equine, Putra Permai, Pusat Bandar Putra Permai ("PBPP") and Permai Park, span over 789 acres of leasehold land. Set within the Multimedia Super Corridor, these townships are easily accessible through numerous highways and byways, which add to its attraction and gain prospective buyers' interest. Total gross development value ("GDV") of the Group's projects is estimated at RM1.8 billion.

The year saw several launches being carried out in Seri Kembangan and Cheras, from 'Permai Square' two- and three-storey shop offices, 'Permai Place' single and double storey shop offices, to 'Mestika Square' two- and three-storey shop offices.

#### *Seri Kembangan*

Flagship projects in Bandar Putra Permai under Taman Equine, Putra Permai, PBPP and Permai Park were launched in 1996, 1998, 2001 and 2003 respectively. To-date, the properties in Putra Permai are fully sold while Taman Equine, PBPP and Permai Park are still being developed into integrated self-contained townships.

Taman Equine is a mixed commercial and residential township comprising bungalow plots, townhouses and commercial development. The township encompasses a landbank of 462 acres, of which 174 acres have been developed as at 31 March 2005.

Expected to be fully completed by 2011, the Taman Equine development is presently surrounded by amenities such as





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*Equine Capital Berhad will soon launch its new concept retail commercial centre, Equine Square, which will feature Malaysia's first drive-thru mall (The Star, Business, 16 March 2005)*



primary and secondary schools, petrol stations, service roads to neighbouring housing estates, a clubhouse, a business park, a wildlife sanctuary, the Alice Smith International School and the Royal Selangor Equestrian Academy.

The PBPP project, an extension of the Putra Permai project, is a mixed commercial and residential township consisting of terrace and semi-detached houses, low-cost apartments and shops and commercial development. Its landbank covers an area of approximately 239 acres, of which 52 acres have been developed as at 31 March 2005.

With estimated completion date in 2008, this planned township is bordered by amenities such as primary and secondary schools, petrol stations, service roads to neighbouring housing estates and Pasar Borong Selangor, one of the largest wholesale markets in Selangor Darul Ehsan.

'Permai Square', which was launched on 30 April 2004, has 54 units of two- and three-storey shop offices. Located within the PBPP enclave, it is flanked by 'Bazaar Rakyat' and the proposed express bus terminal cum local dispersal transport hub. With an estimated GDV of RM28.3 million, Permai Square has as at 31 March 2005 sold 43 units with a corresponding sales value of RM23.2 million and take-up rate of 82%.

Located in Permai Park, 'Permai Place' was launched on 26 January 2005. It is made up of 150 units of single and double-storey shop offices with an estimated GDV of RM54.5 million. As of the financial year ended 31 March 2005, it achieved sales of RM33.8 million for 94 units, which in turn corresponded to a take-up rate of 62%.



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### **Cheras**

Strategically located with frontage along Jalan Kuari in the heart of Cheras, 'Mestika Square' is ready to set the pace for a new commercial centre in this long-established neighbourhood. Mestika Square's two- and three-storey shop offices, which are situated within the enclave of a mixed commercial and residential project called Taman Mestika, will be a significant complement to the existing residential and commercial development in the area. Bolstered by an immediate and strong captive catchment from established residential gardens such as Taman Mawar, Taman Bukit Permai, Taman Cempaka and Taman Seraya, Mestika Square is a prime location in 'full view' of great business opportunities.

Launched on 6 March 2005, Mestika Square comprises 48 units of two and three-storey shop offices with an estimated GDV of RM26.6 million. As at 31 March 2005, 24 units have been sold with a corresponding sales value of RM14.6 million and take-up rate of 55%.

As a whole, the Group had, as at 31 March 2005, secured impressive locked-in sales of approximately RM330.9 million which corresponded to 83% in take-up rates of the total GDV of RM396.5 million for all ongoing projects. The equivalent locked-in unbilled sales which came to a substantial RM153.7 million, are expected to boost ECB Group's performance in the medium term.

As for future launches, the Group has lined-up several attractive mixed residential and commercial projects in the environs of Seri Kembangan and Cheras. The take-up rate of these competitively-priced products is envisaged to be strong with an estimated GDV of more than RM100 million.

Future phases for these two areas include the 'Sovereign' semi-detached two-storey houses in Permai Park and the two blocks of medium-cost high rise apartments in PBPP and two-storey terrace houses and two blocks of low-cost apartments in Taman Mega Jaya, Cheras.



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place to LIVE



## review of business operations

### PROPERTY INVESTMENT

The Group's source of income from property investment comes from Wisma KLIH, a 13-storey office building located in the heart of lively and thriving Bukit Bintang area. As at 31 March 2005, the building's occupancy rate stood at 57%.

The Group has plans to re-model Wisma KLIH before embarking on a rental programme to increase its occupancy rate and enhance its rental yield.

### INVESTMENT HOLDING

In November 2004, the ECB Group announced its rationalisation exercise with respect to the disposal of its 30% equity interest in Pharmaniaga Logistics Sdn Bhd ("PLSB"). The total cash consideration of RM77.5 million was fully settled by the acquirer, Pharmaniaga Berhad, on 31 March 2005 and accordingly, the Group ceased to recognise its interest in PLSB.

### FUTURE PLANS AND STRATEGIES

Global economic growth is projected to be moderate at 4.4% in 2005, as compared to 4.6% in 2004. The stronger macroeconomic fundamentals and resilience, backed by sturdy domestic demand and broad-based growth, will continue to support Malaysia's GDP growth, forecast at 5%-6% in 2005. With the recent announcement of the managed float system on the Ringgit Malaysia, we expect the overall market confidence to grow.

The ECB Group stands to benefit from the bustling economic activities through the demand for its residential and commercial properties. The good locations of the Group's townships are further enhanced by the amenities and innovative features attached to the properties. As Seri Kembangan and Cheras are matured townships, we envisage demand for the Group's properties to continue to be strong.



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# statement on corporate governance

The Board of Directors ("the Board") of Equine Capital Berhad ("the Company" or "ECB") is fully committed to promote and achieve the highest standards of corporate governance and to ensure that the principles and best practices in corporate governance as detailed in the Malaysian Code of Corporate Governance ("the Code") are practised and adopted in ECB and its subsidiaries ("the Group").

The Board continuously evaluates the Group's corporate governance practices and procedures with a view to adopt and implement the principles and best practices of the Code, wherever applicable, as a fundamental part of discharging its responsibilities to protect and enhance shareholder value. The Board believes that good corporate governance results in creation of long term value and benefits for all stakeholders.

## 1. THE BOARD OF DIRECTORS

The Board takes full responsibility for the performance of the Group and guides the Group towards achieving its short and long term objectives, setting corporate strategies for growth and new business development while providing advice and direction to the Management to enable the Group to achieve its corporate goals.

### 1.1 Board Responsibilities

Having recognised the importance of an effective and dynamic Board, the Board's members are guided by six (6) areas of responsibility as outlined below:

- \* Reviewing and adopting a strategic plan for the Group;
- \* Overseeing the conduct of the Group's business to evaluate whether the business is properly managed;
- \* Identifying principal risks of the Group and ensuring that appropriate systems are implemented and/or steps are taken to manage these risks;
- \* Succession planning, including appointing, training, fixing the compensation of and where appropriate, replacing senior management;
- \* Developing and implementing an investor relations programme or shareholder communications policy for the Group; and
- \* Reviewing the adequacy and the integrity of the Group's internal control systems and management information systems, including system for compliance with applicable laws, regulations, rules, directives and guidelines.

Specifically and within the limits set by the Company's Articles of Association ("Articles"), the Board is charged with the development of corporate objectives and the review and approval of corporate plans, annual budgets, acquisitions and disposals of major assets, major investments and changes to the management and control structure within the Group including risk management, delegation of authority and financial and operational policies and procedures.

## 1.2 Composition of the Board and Board Balance

The Board members are professionals from diverse disciplines, tapping on their respective qualifications and experiences in business, commercial, financial and legal aspects. Together, they bring a wide range of experience and expertise which are vital towards the effective discharge of the Board's responsibilities for the successful direction and growth of the Group. A brief description of the background of each Director is presented on pages 16 to 20 of the Annual Report.

The current Board has six (6) members, comprising the Executive Chairman and five (5) Non-Executive Directors, two (2) of whom are independent. This is in compliance with the listing requirements of Bursa Malaysia Securities Berhad ("Bursa Malaysia"), which requires one third (1/3) of or two members of the Board, whichever is higher, to be independent directors. No individual or group of individuals dominates the Board's decision making and the number of directors fairly reflects the investment of the shareholders.

Datuk Patrick Lim Soo Kit ("Datuk Patrick Lim"), the Executive Chairman, is also the founder of the Group and has the requisite knowledge and experience in managing the business of the Group. The Group's Chief Executive Officer ("CEO") has been appointed during the financial year to assist the Executive Chairman in the day-to-day operations of the Group and has overall responsibility over the operational units, organisational effectiveness and implementation of Board policies, directives, strategies, mandates and decisions.

The Board is comfortable that there are sufficient experienced Non-Executive Directors on the Board who provide unbiased and independent views, advice and judgement to take into account the interests of all stakeholders. In addition, all major decisions and key issues involving the Group are referred to the Board for consideration and approval.

The Independent Non-Executive Directors of the Company are YAM Datuk Seri Tengku Ahmad Shah ibni Almarhum Sultan Salahuddin Abdul Aziz Shah ("YAM Datuk Seri Tengku Ahmad Shah") and Yap Kim Swee. They are independent of management and free from any business or other relationships, which could interfere with the exercise of independent judgement on the Board's deliberations and decision-making process. The role of these Independent Non-Executive Directors is therefore important as they provide unbiased and independent views, advice and directions and ensure that the strategies proposed by the management are fully discussed and examined and take into account the long-term interests, not only of the Group and the shareholders, but also of employees, customers, suppliers and other stakeholders.

The Board has also designated YAM Datuk Seri Tengku Ahmad Shah as the Independent Non-Executive Director, to whom concerns may be conveyed.

## statement on corporate governance

All Directors have given their undertakings to comply with the listing requirements of Bursa Malaysia and the Independent Directors have confirmed their independence in writing.

### 1.3 Appointment of Directors

The current directors of ECB were appointed to the Board on 26 August 2003. The Board annually reviews the required mix of skills, experience and other qualities of the directors to ensure that the Board is functioning effectively and efficiently.

### 1.4 Re-Election of Directors

In accordance with the Articles,

- \* all directors who are appointed by the Board are subject to election by shareholders of the Company at the first Annual General Meeting after their appointment, and
- \* one-third, or the number nearest one-third, of the remaining directors shall retire from office and be eligible for re-election.

Notwithstanding the above, the Articles also provide that all the directors of the Company shall retire from office once at least in every three years but shall be eligible for re-election.

To aid shareholders in their decision, sufficient information such as personal profile, meetings' attendance and the shareholdings in the Group, if any, of each Director standing for election are furnished in a separate statement accompanying the Notice of Annual General Meeting.

### 1.5 Directors' Training

In accordance with the Code, all directors of Public Listed Companies (PLC) are to be accredited via the requirement to undergo formal training and education. The introduction of accreditation for directors will enhance their professionalism level, expand their knowledge base and skills and keep them updated on the latest developments in laws, regulations, etc.

Pursuant to the amendments announced by Bursa Malaysia with respect to directors' training, the Board of the respective PLC shall be responsible for determining the training needs of their directors with effect from 1 January 2005. The Board will take on the responsibility in evaluating and determining the specific and continuous training needs of their directors on a regular basis.

During the financial year, the Directors have attended continuous education programs to keep abreast with relevant changes in laws and regulations, and the business environment.

### 1.6 Supply of Information

The Board has a formal schedule of matters for decision-making to ensure that the direction and control of the Group is firmly in its hands.

Board papers, together with the agenda of the Board meeting and relevant reports, are circulated in advance of each Board meeting to enable the Directors to review and obtain further information, where necessary, on matters presented in the Board papers. During Board meetings, management provides further details on each matter or supplementary information, where necessary. In addition and in accordance with the Articles, the Board also ratifies matters previously approved through directors' circular resolution.

Board proceedings, deliberations and conclusions of the Board at every Board meeting are duly recorded in the Board minutes and all minutes are signed by the Chairman of the meeting in compliance with Section 156 of the Companies Act, 1965. All Directors have the right and duty to make further enquiries where they consider this necessary.

Each director has unrestricted access to all information within the Group, the senior management and the company secretary. The directors, whether as full Board or in their individual capacity, may in furtherance of their duties, take independent professional advice at the Company's expense, if required.

### **1.7 Board Meetings**

The Board schedules to meet at least four times a year, with additional meetings convened as and when necessary. Due notice is given for all scheduled meetings.

During the financial year ended 31 March 2005, five (5) Board meetings were convened on the following dates and had 100% participation from all directors:

- \* 20 May 2004;
- \* 15 July 2004;
- \* 17 August 2004;
- \* 23 November 2004; and
- \* 24 February 2005.

### **1.8 Committees**

The Board has established the Audit Committee to assist the Board in discharging its duties and responsibilities. The Audit Committee comprises:

- \* Yap Kim Swee (Chairman)
- \* YAM Datuk Seri Tengku Ahmad Shah
- \* Datuk Ahmad Zabri bin Ibrahim

## statement on corporate governance

The terms of reference of the Audit Committee have been approved by the Board and where applicable, comply with the recommendations of the Code. The details of the Audit Committee are set out on pages 52 to 55 of this Annual Report.

In line with best practices in Corporate Governance, the Code recommends for the establishment of the following committees:

### 1) **Nomination Committee**

The primary function of the Nomination Committee is to propose new nominees for the Board and to assess directors on an ongoing basis.

As the Board does not expect any new appointment within the next twelve (12) months, it collectively undertakes to review the required skill sets annually to ensure that it has an optimal mix of expertise and experience.

### 2) **Remuneration Committee**

The primary function of the Remuneration Committee is to set the policy framework for the remuneration of the directors to ensure that the policy on directors' remuneration are sufficient to attract and retain directors of the calibre needed to manage the Group successfully.

As the Company has only one Executive Director, the review of directors' remuneration will be a matter for the Board's consideration.

### 1.9 **Company Secretary**

The removal and replacement of the Company Secretary is a matter for the Board's consideration.

## 2. **DIRECTORS REMUNERATION**

The remuneration of directors is formulated to be competitive and realistic, emphasis being placed on performance and calibre, with aims to attract, motivate and retain Directors with the relevant experience, expertise and quality needed to assist in managing the Group effectively.

For the Executive Director, the remuneration packages link rewards to corporate and individual performance whilst for the Non-Executive Directors, the level of remuneration is linked to their experience and level of responsibilities undertaken.

The remuneration package for the directors of ECB comprises the following elements:

**a. Salary**

The salary (inclusive of statutory employer contributions to the Employee Provident Fund) of the Executive Director is determined and approved by the Board annually.

**b. Fee**

The fee payable to the directors is determined by the Board and approved by the shareholders of the Company at each Annual General Meeting.

**c. Allowances and benefits-in-kind**

The allowances and other customary benefits (such as private medical insurance, company car, driver, fuel, etc) to the directors are determined and approved by the Board as appropriate.

The service contract between Datuk Patrick Lim and the Company was signed on 15 July 2004 for a period of three (3) years from 1 April 2004, wherein the remuneration package for Datuk Patrick Lim is subject to annual review by the Board. The notice period for the termination of the service contract is six (6) months on either side.

The details of directors' remuneration during the financial year ended 31 March 2005 are as follow:

**2.1 Aggregate Remuneration**

Aggregate Remuneration	Executive Director (RM)	Non-Executive Directors (RM)
Salaries	420,000	-
Fees	-	60,000
Allowances	60,000	40,000
Benefits-in-kind*	29,700	-
Total	509,700	100,000

\* Based on estimated monetary value

## statement on corporate governance

### 2.2 Range of Remuneration

Range of Remuneration	No. of Directors	
	Executive	Non-Executive
Less than RM50,000	-	5
RM500,001 - RM550,000	1	-

The Code recommends disclosure of details of remuneration of each director. However, as the Company has only one executive director, the board is of the view that the disclosure of the remuneration of the directors by bands of RM50,000 is sufficient to meet the objective of the Code.

## 3. SHAREHOLDERS

### 3.1 Shareholders and Investor Relations

The Board recognises the importance of transparency and accountability to its shareholders and maintains an effective communication policy that enables both the Board and the management to communicate effectively with its shareholders and the public. An important aspect of an active and constructive communication policy is the timeliness in disseminating information to shareholders and investors.

Accordingly, the Board communicates information on the operations, activities and performance of the Group on a timely manner through the following:

- \* The Annual Report which contains the financial and operational review of the Group's business, corporate information, financial statements and information on the Board and Audit Committee;
- \* Various announcements made to Bursa Malaysia which includes the announcement of quarterly results of the Group; and
- \* The Company's website at [www.equine.com.my](http://www.equine.com.my)

### 3.2 Annual General Meeting ("AGM")

The AGM serves as an important means for shareholders communication. Notice of the AGM and the Annual Report are sent to shareholders twenty-one (21) days prior to the AGM.

ECB will be convening its second AGM on 22 August 2005. Its inaugural AGM was successfully convened on 19 August 2004. The Board encourages its shareholders to raise questions regarding the resolutions being proposed at the AGM and also other matters pertaining to the business activities of the Group. The Directors and senior management of the Company will be available at the AGM to respond to questions posed by the shareholders.

In addition, a press conference is held immediately following the AGM where the Directors and senior management of ECB advise the press of the resolutions passed, and answer questions on the Group.

Shareholders are welcomed to raise queries by contacting the Group at any time throughout the financial year and not just at the AGM.

While the Group endeavours to provide as much information as possible to its shareholders and stakeholders, it is mindful of the legal and regulatory framework governing the release of material and price-sensitive information. Any information that may be deemed as undisclosed material information about the Group will not be imparted to any single shareholder or group of shareholders.

#### **4. ACCOUNTABILITY AND AUDIT**

##### **4.1 Financial Reporting**

The Board aims to provide and present a clear, balanced and comprehensive assessment of the Group's financial performance and prospects through the quarterly announcement of results to shareholders via the Bursa Malaysia as well as the Chairman's statement, review of operations and annual financial statements in the Annual Report. The Board is assisted by the Audit Committee to oversee the Group's financial reporting process and the quality of its financial reporting.

The Directors are responsible to ensure that the annual financial statements are prepared in accordance with the provisions of the Companies Act 1965 and applicable approved accounting standards in Malaysia. A statement of the directors' responsibilities in preparing the financial statements is set out separately on page 58 of this Annual Report.

##### **4.2 Internal Control and Risk Management**

The Board acknowledges their responsibilities for the internal control system of the Group, covering not only financial controls but also controls relating to operations, compliance and risk management. Information of the Group's internal control and risk management is presented in the Statement on internal Control set out on pages 56 to 57 of this Annual Report.

##### **4.3 Relationship with the External Auditors**

The Board, via the Audit Committee, established formal and transparent arrangements for maintaining an appropriate relationship with the Group's external auditors, Messrs BDO Binder.

A summary of the activities of the Audit Committee during the year as well as the role of the Audit Committee in relation to the external auditors is set out in the Audit Committee's Report on pages 52 to 55 of this Annual Report.

This Statement of Corporate Governance is made in accordance with the resolution of the Board dated 25 July 2005.

## audit committee report

The Audit Committee ("the Committee") was established on 26 August 2003 to act as a committee of the Board of Directors. Presently, its members are:

- \* Yap Kim Swee (Chairman)  
*Independent Non-Executive Director*
- \* YAM Datuk Seri Tengku Ahmad Shah ibni Almarhum Sultan Salahuddin Abdul Aziz Shah  
*Independent Non-Executive Director*
- \* Datuk Ahmad Zabri bin Ibrahim  
*Non-Independent Non-Executive Director*

Details of the members of the Committee are contained in the "Profile of Directors" as set out on pages 16 to 20 of this Annual Report.

### TERMS OF REFERENCE

The Committee is governed by the following terms of reference:

#### 1. Composition

The Committee shall be appointed from amongst the Board and shall comprise at least three (3) members, a majority of whom shall be independent directors. The chief executive officer of the Company shall not be a member of the Committee.

In the event of any vacancy with the result that the number of members is reduced to below three, the vacancy must be filled within three (3) months.

#### 2. Chairman

The Chairman, who shall be elected by the Committee, must be an independent director.

#### 3. Secretary

The Secretary of the Committee shall be responsible, in conjunction with the Chairman, for drawing up the agenda and circulating it prior to each meeting.

The Secretary shall also be responsible for keeping the minutes of meetings of the Committee and circulating them to the Committee Members.

#### 4. Meetings

The quorum for a meeting shall be two (2) members, provided that the majority of members present at the meeting shall be independent.

The external auditors have the right to appear at any meeting of the Committee and shall appear before the Committee when required to do so by the Committee. The external auditors may also request a meeting if they consider it necessary.

#### 5. Rights

The Committee shall:

- (a) have explicit authority to investigate any matter within its terms of reference;
- (b) have the necessary resources which it needs to perform its duties;
- (c) have full and unrestricted access to any information which it requires in the course of performing its duties;
- (d) have unrestricted access to the chief executive officer and the chief financial officer;
- (e) have direct communication channels with the external auditors and internal auditors; and
- (f) be able to obtain independent professional or other advice in the performance of its duties at the cost of the Company.

#### 6. Duties

The duties of the Committee shall include a review of:

- (a) the nomination of external auditors;
- (b) the adequacy of existing external audit arrangements, with particular emphasis on the scope and quality of the audit;
- (c) the adequacy and effectiveness of the internal control and management information systems;
- (d) the financial statements of the Company with both the external auditors and management;
- (e) the external auditors' audit report;
- (f) any management letter sent by the external auditors to the Company and the management's response to such letter;
- (g) any letter of resignation from the Company's external auditors;
- (h) the assistance given by the Company's officers to the external auditors;
- (i) all areas of significant financial and operational risks and the arrangements in place to contain those risks to acceptable levels; and
- (j) all related-party transactions and potential conflict of interests situations.

## audit committee report

### INTERNAL AUDIT FUNCTION

In discharging its function, the Committee is supported by an internal audit function whose primary responsibility is to evaluate and report on the adequacy, integrity and effectiveness of the overall system of internal control of Equine Capital Berhad and its subsidiaries ("the Group"). The internal audit function of the Group has been outsourced to an external party, who reports directly to the Committee. The internal audit function also adopts a risk-based audit methodology, which is aligned with the risks of the Group, to ensure that relevant controls addressing those risks are reviewed on a regular basis.

### MEETINGS

During the financial year ended 31 March 2005, the Committee convened a total of five (5) meetings on 20 May 2004, 15 July 2004, 17 August 2004, 23 November 2004 and 24 February 2005. All meetings had 100% participation from all members.

The Group's internal and external auditors and certain members of senior management team attended the meetings upon the invitation of the Committee. Minutes of the meetings of the Committee are circulated to all members of the Board and significant issues are discussed at the Board Meetings.

### SUMMARY OF ACTIVITIES OF THE COMMITTEE

During the financial year and up to the date of this Report, the Committee carried out the following activities in discharging their duties and responsibilities:

#### \* Controls

- Evaluated the overall effectiveness of the system of internal controls through the review of the results of work performed by the internal and external auditors and discussions with key senior management.

#### \* Financial Results

- Reviewed the quarterly results of the Group and audited annual financial statements of the Group and Company before recommending to the Board for release to Bursa Malaysia Securities Berhad ("Bursa Malaysia"). The review focused primarily on:
  - a) major judgmental areas, significant and unusual events;
  - b) significant adjustments resulting from audit;
  - c) the going concern assumption;
  - d) compliance with applicable approved accounting standards in Malaysia; and
  - e) compliance with Listing Requirements of Bursa Malaysia and other relevant regulatory requirements.

**\* External Audit**

- Reviewed with the external auditors, their audit plan for the financial year ended 31 March 2005 to ensure that their scope of work adequately covered the activities of the Group;
- Reviewed the results and issues arising from their audit of the annual financial statements and their resolution of such issues as highlighted in their report to the Committee; and
- Reviewed their performance and independence before recommending to the Board their re-appointment and remuneration.

**\* Internal Audit**

- Reviewed with the internal auditors, their audit plan for the financial year ended 31 March 2005 ensuring that principal risk areas were adequately identified and covered in the plan;
- Reviewed the recommendations by internal audit, representations made and corrective actions taken by management in addressing and resolving issues as well as ensuring that all issues were adequately addressed on a timely basis;
- Reviewed the competency of the internal auditors to execute the plan, the audit programs used in the execution of the internal audit work and the results of their work; and
- Reviewed the adequacy of the terms of reference of internal audit.

**\* Related Party Transactions**

- Reviewed the procedures for identification of related party transactions for compliance with the Listing Requirements of Bursa Malaysia and the appropriateness of such transactions, if any, before recommending to the Board for approval; and
- Reviewed the procedures for identification of recurrent related party transactions and securing shareholders' mandate for such transactions, if any.

This Audit Committee Report is made in accordance with the resolution of the Board dated 25 July 2005.

# statement on internal control

This Statement on Internal Control by the Board of Directors ("the Board") is made pursuant to paragraph 15.27(b) of the Listing Requirements of Bursa Malaysia Securities Berhad ("Bursa Malaysia") with respect to the compliance of Equine Capital Berhad and its subsidiaries ("the Group") with the principles and best practices for internal controls as provided in the Malaysian Code of Corporate Governance.

## **BOARD RESPONSIBILITIES**

The Board has the overall responsibility for the Group's system of internal control and for reviewing its effectiveness, adequacy and integrity. The internal control system covers not only financial controls but operational and compliance controls, and risk management. However, the system of internal control is designed to manage rather than to eliminate the risk of failure to achieve business objectives and can provide reasonable, and not absolute assurance, against material misstatement of management and financial information or against financial losses and fraud.

It is the Board's view that in order to achieve a sound system of internal control, it is first necessary to provide a control environment and framework that is conducive to this objective. This requires that the Board, management and all levels of employees must be aware of the Group's business objectives, the risks that could potentially impede the Group in achieving these objectives and the policies and control strategies that are required to manage these risks.

## **RISK MANAGEMENT FRAMEWORK**

The Board is responsible for the ongoing identification, evaluation and management of significant risks. These ongoing processes have been in place during the year under review and are reviewed annually by the Audit Committee, and the internal audit function. The internal audit function has been outsourced to an external party, who reports directly to the Audit Committee.

Following the risk assessment exercise conducted in 2004 by the outsourced internal auditors to identify and evaluate significant risks faced by the Group. The Board approved an audit plan to continuously review the adequacy, integrity and effectiveness of the Group's system of internal control to mitigate the risks of the Group including financial, operational and compliance risks.

The audit plan is reviewed annually to take into account changes in risks the Group may be exposed to as the Group's objectives, the organisation and the environment in which it operates are continuously evolving.

### INTERNAL CONTROL SYSTEM

The key elements of the Group's internal control system are as follows:

- \* Organisation structure with defined lines of responsibilities and delegation of authority;
- \* Appropriate authorisation of transactions, supported by policies and procedures;
- \* Monthly financial reporting framework for all companies within the Group whereby actual results monitored against forecasts/budgets and variances are investigated accordingly;
- \* Quarterly reporting of the financial results of the Group to the Audit Committee and the Board;
- \* Management meetings and project department meetings are held fortnightly to identify, discuss, evaluate and resolve operational and financial issues

During the financial year ended 31 March 2005, the internal audit review covered the control systems and processes within the following four (4) key functions of the Group:

1. Sales and Marketing, including the advertising and promotion activities of the Group;
2. Project Management function covering project planning and scheduling, project cost control and environmental, health and safety;
3. Credit Control and Administration function on billings and collections; and
4. Finance function covering the general accounting controls and processes, accounting for cash and bank, accounting for fixed assets, management reporting, and budgetary control systems and procedures

The recommendations on improvements to the internal control system of the Group were made to the respective Head of Departments for corrective actions. Such corrective actions were reviewed by the internal auditors in subsequent follow-up audits on the above functions.

The results of the above internal audit reviews, including comments from the management, were reported to the Audit Committee on a regular and timely basis.

### CONCLUSION

Based on the above, the Board is of the view that system of internal control being implemented within the Group is sound and effective. Notwithstanding this, reviews of all the control procedures will be continuously carried out to ensure the ongoing adequacy, integrity and effectiveness of the system of internal control, so as to safeguard the Group's assets and shareholders' investments.

This Statement on Internal Control is made in accordance with the resolution of the Board dated 25 July 2005.

## statement on directors' responsibility

The Directors are required by the Companies Act, 1965 ("the Act") to lay before the Company ("Equine Capital Berhad") at its Annual General Meeting, financial statements of Equine Capital Berhad and its subsidiaries ("the Group") for each financial year, made out in accordance with the applicable approved accounting standards in Malaysia and the provisions of the Act.

The financial statements of the Group and the Company for the financial year ended 31 March 2005 are set out on pages 67 to 113 of this Annual Report.

The Directors are responsible to take reasonable steps to ensure that the financial statements give a true and fair view of the state of affairs of the Group and of the Company, and of their results and cash flows for the financial year then ended.

In preparing the financial statements, the Directors have:

- \* adopted suitable accounting policies and applied them consistently;
- \* made judgements and estimates that are reasonable and prudent;
- \* ensured that all applicable approved accounting standards in Malaysia have been complied with; and
- \* prepared financial statements on a going concern basis as the Directors have a reasonable expectation, having made appropriate enquiries, that the Group and the Company have adequate resources to continue in operational existence for the foreseeable future.

The Directors have the responsibility for ensuring that the Group and the Company maintains such accounting and other records that will disclose with reasonable accuracy, the financial position of the Group and the Company, and which enable them to ensure that the financial statements comply with the Act.

This Statement on Directors' Responsibility is made in accordance with the resolution of the Board dated 25 July 2005.