

Audit Committee Report



From left to right: Tan Sri Saw Huat Lye, Tan Sri Dato' Alwi Jantan, Dato' Jaffar Bin Ahmad Indot, Chin Yoong Chong, John Irving and Low Teng Lum

Terms of reference

The terms of reference are set out from pages 71 to 74.

Members and meetings

Tan Sri Saw Huat Lye (Chairman)	Independent Non-Executive Director
Tan Sri Dato' Alwi Jantan	Independent Non-Executive Director
Dato' Jaffar Bin Ahmad Indot	Independent Non-Executive Director
Chin Yoong Chong	Independent Non-Executive Director
John Irving	Non-Independent Non-Executive Director
Low Teng Lum	Executive Director

The Audit Committee comprises four Independent Non-Executive Directors, one Non-Independent Non-Executive Director and one Executive Director.

Tan Sri Saw Huat Lye is the Chairman of the Audit Committee. The composition of the Audit Committee is as above.

The Audit Committee had five meetings during the year.

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<i>No</i>	<i>Date</i>	<i>Venue</i>	<i>Percentage of Attendance</i>
1	18 August 2003	Kuala Lumpur	100%
2	10 September 2003	Kuala Lumpur	60%
3	7 November 2003	Kuala Lumpur	100%
4	10 February 2004	Kuala Lumpur	100%
5	6 May 2004	Kuala Lumpur	67%

<i>No</i>	<i>Name</i>	<i>Total Meetings</i>	<i>Percentage of Attendance</i>
1	Tan Sri Saw Huat Lye	5/5	100%
2	Tan Sri Dato' Alwi Jantan	4/5	80%
3	Dato' Jaffar Bin Ahmad Indot	5/5	100%
4	Chin Yoong Chong	4/5	80%
5	Low Teng Lum	4/5	80%
6	* John Irving	0/1	0%

* John Irving was appointed to the Board on 1 September 2003 and appointed as a Member of Audit Committee on 17 February 2004.

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The Group's external auditors attended three meetings during this period and some Members of Senior Management attended some of these meetings by invitation.

Summary of Activities

During the year, the Audit Committee focussed on the following:

Activities with regard to Financial Statements:

- Review of the Annual Reports, Related Party Transactions (RPT) circular and audited Financial Statements of the Company prior to submission to the Board of Directors for their perusal and approval. This was to ensure compliance of the Financial Statements with the provisions of the Companies Act, 1965 and the applicable approved accounting standards as per MASB
- Review of the Company's compliance with the Bursa Securities Listing Requirements, MASB and other relevant legal and regulatory requirements with regard to the quarterly and year-end Financial Statements
- Review of the unaudited financial results and the relevant announcements to the Bursa Securities prior to the consideration by the Board of Directors

Activities with regard to Internal Audit:

- Review of Internal Audit's plans and programmes
- Review of the Internal Audit Department's performance appraisals
- Review of Internal Audit's reports, recommendations and Management responses. Improvement actions in the

area of internal controls, systems and efficiency enhancements suggested by the internal auditors were discussed together with Management

- Review of implementation of these recommendations through follow up audit reports
- Suggested additional improvement opportunities in the areas of internal control, systems and efficiency improvement
- Review reports from the Risk Control Workgroup following their quarterly meetings

Activities with regard to External Audit and Group Audit:

- Review of external audit scope and audit plans based on the external auditors' presentation of audit strategy and plan
- Review of external audit results, audit reports, Management letter and response from Management
- Review of Group audit scope and audit plans based on the Group Auditors' audit strategy and plan
- Review of Group audit results, audit reports and follow up action plans from Management

Other activities:

- Review of related party transactions and extraordinary and ordinary dividend payments
- Review of compliance to the Malaysian Code on Corporate Governance
- Review of business risks
- Review of crisis risks management

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Internal Audit Function

The principal role of the Internal Audit Department is to undertake independent and systematic reviews of the systems of internal controls so as to provide reasonable assurance that such systems continue to operate satisfactorily and effectively. It is the responsibility of the Internal Audit Department to provide the Audit Committee with independent and objective reports on the state of internal control of the various operating units within the Group and the extent of compliance of the units with the Group's established policies and procedures as well as relevant statutory requirements.

The Internal Audit Department has adopted a risk-based approach towards the planning and conduct of audits which is consistent with the Group's established framework in designing, implementing and monitoring of control systems. The Internal Audit Department also works collaboratively with the Risk Control Workgroup to review the risk management processes of the Group as a whole. The Group's monitoring process and controls assurance and risk management approach are in alignment with the risk management framework and risk awareness culture within the organisation.

Terms of Reference

Membership

The Audit Committee comprises at least three Directors, the majority of whom are Independent. The Chairman of the Group is the Chairman of the Audit Committee as he is an Independent Non-Executive Director.

The Head of Internal Audit shall be the Secretary of the Audit Committee. At least one Member of the Audit Committee shall be a Member of the Malaysian Institute of Accountants or alternatively a person who has at least three years working experience and has passed the examinations specified in Part 1 of the 1st schedule of the Accountants Act, 1967 or is a member of one of the associations specified in Part II of the said schedule.

No alternate Director shall be appointed as a Member of the Audit Committee. The Board shall review the terms of office and performance of the Members of the Audit Committee at least once a year to determine whether the Members have carried out their duties in accordance with their terms of reference.

In the event of any vacancy in the Audit Committee resulting in the non-compliance of the Bursa Securities Listing Requirements, the Board shall fill the vacancy within three months from the date of the vacancy.

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Meetings and Minutes

The Audit Committee shall meet at least four times annually. A majority of the Members in attendance must be Independent Directors in order to form a quorum for the meeting.

The Finance Director and the Head of Internal Audit shall normally attend meetings of the Audit Committee. External auditors shall be entitled to attend a meeting of the Audit Committee at least once a year to make known their views on any matter under consideration by the Audit Committee or, which in their opinion, should be brought to the Audit Committee's attention. Non-Member Directors and employees of the Company shall not attend unless specifically invited by the Audit Committee.

The Secretary shall record, prepare and circulate the minutes of the meetings of the Audit Committee and ensure that the minutes are properly kept and produced for inspection if required.

The Audit Committee shall report to the Board and its minutes will be tabled to and noted by the Board.

Authority

The Audit Committee is authorised by the Board to review any activity within the Audit Committee's terms of reference. It is authorised to seek any information it requires from any Director or Member of Management and has full and unrestricted

access to any information pertaining to the Company and the Management, and all employees of the Group are required to comply with the requests made by the Audit Committee.

The Audit Committee is authorised by the Board to obtain external professional advice and secure the attendance of outsiders with relevant experience and expertise if it considers this necessary. In the event that any Member of the Audit Committee shall need to seek external professional advice in furtherance of his duties, he shall first consult with and obtain the prior approval of the Chairman of the Audit Committee.

The Audit Committee is also authorised by the Board of Directors of the Company to review any activity within its Terms of Reference, and where it deems necessary, investigate any matter referred to it or that it has come across in respect of a transaction that raises questions of management integrity, possible conflicts of interest, or abuse by a significant or controlling shareholder.

The Audit Committee shall have direct communication channels and be able to convene meetings with the external auditors excluding the attendance of the non-independent members of the Audit Committee, whenever deemed necessary.

The Head of Internal Audit shall report directly to the Audit Committee and shall have direct access to the Chairman of the

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Audit Committee on all matters of control and audit. All proposals by Management regarding the appointment, transfer and removal of the Head of Internal Audit of the Company shall require prior approval of the Audit Committee. Any inappropriate restrictions on audit scope are to be reported to the Audit Committee.

Duties

1. To review the quarterly, half-yearly and annual Financial Statements of the Company, focussing particularly on:
 - any significant changes to accounting policies and practices
 - significant adjustments arising from the audits
 - compliance with accounting standards and other legal requirements
 - the going concern assumption
2. To review any related party transaction and conflict of interest situation that may arise within the Company including any transaction, procedure or course of conduct that raises questions of Management integrity.
3. To consider annually the Business Risk Management Framework adopted within the Company and to be satisfied that the methodology employed allows the identification, analysis, assessment, monitoring and communication of risks in a regular and timely manner that will allow the Group to minimise losses and maximise opportunities.
4. To ensure that the system of internal control is soundly conceived and in place, effectively administered and regularly monitored.
5. To cause reviews to be made of the extent of compliance with established internal policies, standards, plans and procedures including for example, the Company's Code of Business Conduct.
6. To obtain assurance that proper plans for control have been developed prior to the commencement of major areas of change within the organisation.
7. To be satisfied that the strategies, plans, manning and organisation for internal auditing are communicated down through the Company.

Specifically:

- to review the internal audit plans and to be satisfied with their consistency with the Business Risk Management Framework used, the adequacy of coverage and the audit methodologies employed
- to be satisfied that the internal audit function within the Company has the proper resources and standing to enable them to complete their mandates and approved audit plans
- to review status reports from internal audit and ensure that appropriate action is taken on the recommendations of the internal audit function. To recommend any

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broader reviews deemed necessary as a consequence of the issues or concerns identified

- to review any appraisal or assessment of the performance of the Members of the internal audit function, to approve any appointment or termination of senior staff members of the internal audit function and to inform itself of any resignations of internal audit staff members and reasons thereof
 - to ensure internal audit has full, free and unrestricted access to all activities, records, property and personnel necessary to perform its duties
 - to request and review any special audit which it deems necessary
8. To review with the external auditors the nature and scope of their audit plan and report.
 9. To review any matters concerning the appointment and reappointment, audit fee and any questions of resignation or dismissal of the external auditors.
 10. To review and evaluate factors related to the independence of the external auditors and assist them in preserving their independence.
 11. To be advised of significant use of the external auditors in performing non-audit services within the Group, considering both the types of services rendered and the fees, such that their position as auditors are not deemed to be compromised.
 12. To review the external auditors' findings arising from audits, particularly any comments and responses in Management letters as well as the assistance given by the employees of the Group in order to be satisfied that appropriate action is being taken.
 13. To recommend to the Board steps to improve the system of internal control derived from the findings of the internal and external auditors and from the consultations of the Audit Committee itself.
 14. To review with the external auditors the Statement of Internal Controls of the Group for inclusion in the Annual Report.
 15. To prepare the annual Audit Committee report to the Board which includes the composition of the Audit Committee, its terms of reference, number of meetings held, a summary of its activities and the existence of an internal audit function and summary of the activities of that function for inclusion in the annual report.
 16. To review the Board's statements on compliance with the Malaysian Code of Corporate Governance for inclusion in the annual report.
 17. To review ordinary and extraordinary dividend payments.
 18. To act on any other matters as may be directed by the Board.

Statement Of Internal Control

Board Responsibility

The Board of Directors recognises the importance of a sound system of internal controls which covers risk management, financial, organisational, operational, and compliance controls. The Board acknowledges its overall responsibility for the Group's system of internal controls which includes the establishment of an appropriate control environment and framework as well as reviewing the effectiveness, adequacy and integrity of this system. Such a system is designed to safeguard Shareholders' investments and the Group's assets. It should be noted, however, that such a system is designed to manage rather than eliminate the risk of failure to meet the Group's business objectives. Accordingly, this system can only provide reasonable, and not absolute, assurance against material misstatement or loss.

The Group has in place an on-going process for identifying, evaluating, monitoring and managing the significant risks affecting the achievement of its business objectives throughout the period. This process is regularly reviewed by the Board to ensure the adequacy and integrity of the system.

Risk Management Framework

The Board has established an organisational structure with clearly defined lines of accountability and

delegated authority as part of its risk management framework. This is achieved through a clearly defined operating structure with lines of responsibility and delegated authority. Written policies and procedures have been issued with clearly defined limits of delegated authority and provide a framework for management to deal with areas of significant risk.

The risk profile of the Group is established during risk assessment sessions facilitated by the Risk and Control Workgroup (RCW). The risk responses and internal controls that the Management have taken and/or are taking are documented in the minutes of the RCW's meetings. For each of the risks identified, a risk owner is assigned to ensure appropriate risk response actions are carried out.

The annual audit plan is reviewed and approved by the Audit Committee, control issues arising from the assurance process including internal and external audits are discussed at the Audit Committee.

Effort to build a more robust Risk Management Framework to promote effective risk management and enhance corporate governance assurance process is currently undertaken by the RCW. The framework provides an integrated risk management infrastructure with the establishment of the respective risk workgroups to ensure major areas of risks are controlled and coordinated.

Statement Of Internal Control

Control Assurance And Risk Management

To enhance the company's corporate governance, the Group has implemented Control Assurance and Risk Management (CARM), a web based self-assessment programme. It involves each business unit to evaluate and ensure that it has appropriate controls in place to manage a broad range of risks arising from day to day business activities within the Group. CARM emphasises on internal controls over financial reporting for the purpose of compliance requirements with the US Sarbanes-Oxley Act and focuses on transparency, accountability and safeguarding of assets in its review mechanism.

The results of the CARM and trend analysis are reported to the Audit Committee annually.

Other Key Elements of Internal Control

The other key elements of the Group's internal control systems are described below:

- Clearly defined delegation of responsibilities to committees of the Board and to Management Executive and business operating units, including authorisation levels for all aspects of the business
- Clearly documented internal policies and procedures set out in a series of Standard Practice Manuals. These Manuals are subject to regular review and improvement to reflect changing risks or to resolve operational deficiencies. All standards, policies and guidelines are presented to the Audit Committee and cases of non-compliance reported to the Audit Committee by exception. Reliance is also placed on the Internal Audit function as well as the CARM approach mentioned earlier
- Management Executive meetings are held on a regular basis to identify, discuss and resolve operational, financial and key management issues
- Quarterly RCW meetings to review the adequacy of systems, policies and procedures and internal control processes to mitigate the internal control business risk and to follow-up on action plans proposed by management on the recommendations of the Internal Audit Department
- A yearly internal quality audit to monitor compliance with ISO requirements

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- A half-yearly Hazard Analysis Critical Control Point (HACCP) internal audits to monitor compliance with products' safety requirements
- A detailed budgeting process where operating units prepare budgets for the coming financial year which are approved both at the business operating unit level and by the Board
- Monthly monitoring of results against budget, with major variances being followed up on and management action taken, where necessary. The Board also conducts similar reviews on a quarterly basis
- Regular visits to business operating units by members of the Board and the Management team
- A Code of Ethics to support the business objectives

A number of minor internal control weaknesses were identified during the period, all of which have been, or are being, addressed. None of the weaknesses have resulted in any material losses, contingencies or uncertainties that would require disclosure in the Group's Annual Report.

Risk Management



For the financial year under review, the Group has in place an on-going process in identifying, evaluating and managing the risks faced by the Group in pursuing its business objectives and strategies.

The Group's risk management process is managed by the Risk & Control Workgroup (RCW), made up of cross-functional Senior Managers and is headed by the Finance Director. The Group adopts a proactive approach to managing its business risks in a rapidly changing business environment which is principally aimed at:

- Ensuring the continuity of supply of its products to the consumers at all times
- Protecting its assets and reputation
- Preserving the safety and health of its employees
- Ensuring that the Group's operations do not impact negatively on its neighbours
- Protecting the interests of all stakeholders
- Ensuring compliance with the Malaysian Code of Corporate Governance, brand partners guidelines and all applicable Malaysian laws
- Promoting an effective risk awareness culture where risk management is an integral aspect of the Group's management systems

Risk Management

Guinness Anchor Berhad's Risk Management processes are as follows:



<i>Impact</i>	<i>Risk Management Actions</i>		
Significant	Considerable management required	Must manage and monitor risks	Extensive management essential
Moderate	Risks may be worth accepting with monitoring	Management effort worthwhile	Management effort required
Minor	Accept risks	Accept, but monitor risks	Manage and monitor risks
	Low	Medium	High
	Likelihood		

This categorisation will enable the Group to allocate its resources to deal with the different levels of business risks.

Promotion of Risk Awareness

In support of the Group's efforts to promote a risk awareness culture, the Risk & Control Workgroup communicates the Group's risk management programme to the appropriate levels of employees and other stakeholders via the appropriate channel. Employees are also encouraged to give feedback on risk management issues and make suggestions for improvement.

Sustainability Report

Our Commitment to the Sustainable Development of Our Brewery

At Guinness Anchor Berhad, we believe in incorporating sustainable considerations into our business operations so as to add value to our customers, consumers, employees and Shareholders.

We are committed to preserving the environment and this is reflected in the efforts and investments we have made and will continue to make in this area. Reducing and recycling waste and efficient use of our resources have and will continue to be our key priorities.

The safety of the work environment and the health and safety of our employees are also of prime importance. In addition, the continuous development of our people and work processes are given full attention to ensure that we only deliver the best to our people and to our customers and consumers.

We have made great strides in this area of sustainable development and today, we are proud that Guinness Anchor Berhad remains the first and only brewery in Malaysia to get the Ministry of Health's Hazard Analysis Critical Control Point (HACCP) certification and SIRIM's ISO 9001:2000 Quality certification.

Investing in our People

At Guinness Anchor Berhad, we believe that our people are one of the core assets of the Company. They form the pulse that drives the Company and our business. It is because of this that we believe in investing in our people.

Corporate Vision and Values

Our Corporate Vision and Values was launched recently. It encapsulates the important ingredients for our success which include the market, customer and consumer insights, effective brand portfolio management and our people.

The Corporate Vision & Values aim to unite our people on a common platform for greater performance and productivity.

Commercial Training

The training division within the Commercial Department is dedicated to meeting the training needs of our Sales force. During the year, specialised training of the sales force and sales ambassadors were held throughout the country. This ensured that our sales force and sales ambassadors are fully equipped to meet customer expectations and maintain the highest level of customer satisfaction.

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• External and internal training programmes for our people

Technical Training

Training in the Technical Department is implemented using a thoroughly planned procedure. This is to ensure that all training satisfy Company objectives, which are then translated to departmental objectives.

Prior to the design of training programmes, a gap analysis is conducted to gauge the distance between required and actual levels of skill, knowledge, attitude and work performance in the workforce. Subsequently, a three-year training plan is drawn out for individuals.

In the past year, external and internal training programmes were held. The Company had sent individuals for training with affiliate breweries in Singapore, New Zealand, Indonesia, China, the Netherlands, England and Germany.



Internal training sessions were organised to equip employees with new skills and work practices in conjunction with the on-going brewery automation exercise.

Other Training

Various training sessions to equip employees and to sharpen their skills were held throughout the year. This included departmental and interdepartmental trainings as well as training with our affiliate companies. Also held were team-building workshops to foster stronger working relationships.

Management trainee programme

In line with Guinness Anchor Berhad's commitment to develop future leaders, the Company has started a Management Trainee Programme. This programme,

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• Training to equip employees with the knowledge on how to cope with emergencies

specifically designed for trainees below the age of 25 years, runs for eighteen months where trainees have the opportunity to learn on the job with different divisions of the Company. Trainees are mentored in specially-tailored training programmes to allow for development in their areas of strength.

Investing in the Safety & Health of Employees

We strive to protect our employees from harm and to provide a working environment that is both healthy and safe. Training to equip employees with the knowledge on how to cope in emergencies is an on-going process. At the same time, a project to upgrade the overall security of the brewery is also underway.

Fire Drills

Fire Evacuation Drills are simulated once a year to increase awareness on important safety issues and to equip employees with safety knowledge in the event of an emergency.

These simulation exercises are held with the support of the Petaling Jaya Fire Department and Guinness Anchor Berhad's fire-fighting team.

Safety Training

Several general training sessions on health issues for the whole company as well as department specific training were held throughout the year. These training sessions were aimed at creating a health-conscious workforce.

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Besides health training, a one-day certified occupational first-aid course was conducted at the brewery, for employees. This training successfully equipped participants with knowledge on how to tackle emergencies such as cardio-pulmonary resuscitation (CPR), acid burns, fire burns and hot-water scalding.

Upgrade of Brewery Security

Guinness Anchor Berhad embarked on a four-phased project to upgrade our brewery security in 2001. The first phase involved the raising of the perimeter walls from 1.8 meters to 2.5 meters to enhance security. The subsequent phase was the upgrade of the closed circuit TVs (CCTV) system. The CCTVs were upgraded from analog to digital and, the quantity increased from twenty-six to thirty-four units, the CCTVs now run on fibre optics. The third phase, which was recently completed, involved the installation of the time recorder and security access card system in key areas around the brewery. The final phase of this security enhancement project will see the building of a fence to segregate the parking area away from office buildings.

Investing in the Environment

In investing in the environment, we have instituted measures to reduce the consumption of limited resources and the emission of waste into the environment.

We have successfully reduced water consumption, thermal energy consumption as well as production electricity consumption. Water consumption was reduced by 10 per cent in 2002 and a further 3 per cent in 2003. Thermal energy consumption fell by 9 per cent in 2003 while production electricity consumption dropped by 7 per cent from the previous year.

The expansion of our Waste Water Treatment Plant was completed in 2001 and this increased the wastewater capacity by 2.5 times. This expansion also included the addition of an anaerobic treatment system which allows for the digestion of spent yeast, that previously had to be disposed by third party transporters. A by-product of the anaerobic treatment process is bio-gas which is used as alternative burning fuel for our boilers, thus reducing fuel oil consumption at our boilers.

Recycling

Recycling has become an integral part of Guinness Anchor Berhad's business operations in line with efforts to minimise wastage and to conserve our resources.

By-products of our key ingredients are processed to produce useful materials. Spent grain, the solid waste for the brewing stage, is sold as animal feed while the spent yeast is processed to produce bio-gas which is used as alternative fuel.

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• Working together to conserve energy



• Training on fire safety

The use of returnable packaging materials, specifically our bottles are encouraged as much as possible to, minimise the negative impact to the environment.

Our recycling efforts are not only confined to the brewery. In our offices, newspapers, plastic bottles and used papers are collected and recycled. Employees are also encouraged to make recycling part of their life and environment. Recycling bins have been placed in convenient locations around the brewery to allow for employees to drop of their recyclables from home, on the way to work.

Working Together for the Environment

A brainstorming workshop with our affiliated breweries from Thailand, Singapore, Indonesia, China, Papua New Guinea, Vietnam, Cambodia, New Zealand and New Caledonia was hosted by Guinness Anchor Berhad in July 2003. Led by trainers from Heineken University, this workshop was aimed at coming up with effective energy saving plans to help drive the reduction of energy consumption in the respective breweries.

This three-day workshop underlined the commitment of Guinness Anchor Berhad and its affiliates to share their expertise and resources for the betterment of the environment.