

# Corporate Governance

The Board is pleased to disclose herein the Group's application of the underlying principles set out in the Malaysian Code on Corporate Governance (the Code) and the extent to which it has complied with the Code throughout the financial year ended 30 June 2005.

## BOARD OF DIRECTORS

### The Board

An effective Board leads and controls the Group, and has established terms of reference to assist it in the discharge of this responsibility. All Directors are from diverse professional backgrounds with a wide range of business and financial experience relevant to lead a fast moving consumer products company and, as such, are able to bring independent judgement on issues of strategy, performance, resources and standards of conduct. A brief description of the background of each Director is set out on pages 59 to 68 of the Annual Report.

Where appropriate, the Board has delegated specific responsibilities to Board Committees as well as various sub-committees to assist the Board in the running of the Group. The functions and terms of reference of the Board Committees as well as authority delegated by the Board to these Committees, have been clearly defined by the Board. There are four Board Committees namely the Executive Committee, Audit Committee, Remuneration Committee and Nomination Committee and the details of their work are set out below. These Committees examine specific issues and report to the Board with their recommendations. The ultimate responsibility for decision-making lies with the Board.

The Board meets at least four times a year, with additional meetings convened when necessary. During the financial year ended 30 June 2005, four Board meetings were held and the details of attendance of the Directors are as follows:

Name of Director	No of Board meetings attended
Tan Sri Saw Huat Lye	4 out of 4 meetings
Theo A F de Rond	4 out of 4 meetings
Tan Sri Dato' Alwi Jantan	4 out of 4 meetings
Chin Yoong Chong	4 out of 4 meetings
Dato' Jaffar bin Ahmad Indot	4 out of 4 meetings
Khoo Gaik Bee	4 out of 4 meetings
Low Teng Lum	4 out of 4 meetings
Quek Peck Leng	4 out of 4 meetings
John Irving	3 out of 4 meetings

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### Board Balance

The Board currently has nine members of whom three are Executive Directors and four out of the six Non-Executive Directors (including the Chairman) are independent. There is a clear division of responsibility between the Chairman and the Managing Director to ensure that there is a balance of power and authority. The Managing Director has the principal responsibility of reporting, clarifying and communicating matters to the Board.

There is an effective check and balance within the Board with the presence of two-thirds of the Board members being Non-Executive and two-thirds of the Non-Executive being independent. Although all Directors have an equal responsibility for the Group's operations, the role of these Independent Non-Executive Directors is particularly important in ensuring that the strategies proposed by the executive management are fully discussed and examined with due regard to risk management. The decisions are arrived at after taking into account the long term interests, not only of the Shareholders, but also of employees, customers, suppliers, and the many communities in which the Group conducts its business.

### Supply of Information

The agenda together with Management reports are circulated on a timely manner prior to Board meetings to enable the Directors to review and consider matters to be deliberated at the Board meetings. The Management reports include, among others, the following details:

- \* major operational and financial issues
- \* product and service quality measures

- \* monthly performance report of the Group
- \* environmental performance
- \* significant developments on human resources
- \* market share and market responses to the Group's strategies
- \* minutes of meetings of the Management Team
- \* minutes of meetings of the Board Committees
- \* circular resolutions passed

In addition, there is a schedule of matters reserved specifically for the Board's decision including the approval of quarterly financial statements, the annual operating plan, major acquisitions or disposal of a business or assets and changes to management and control structure of the Group, key policies, procedures and authority limits.

All Directors have access to the advice and services of the Company Secretaries.

The Board has also approved a procedure for Directors, whether as a full Board or in their individual capacity, to obtain independent professional advice at the Company's expense, where necessary, to enable them to discharge their responsibilities.

### Nomination Committee

The Code endorses as good practice, a formal procedure for appointments to the Board, with a Nomination Committee to make recommendations to the Board and assessing Directors on an on-going basis. The Code, however, states that this procedure may be performed by the Board as a whole, although as a matter of good practice, it recommends that this responsibility be delegated to a committee.

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All Directors were previously involved in the process of assessing existing Directors and identifying, nominating, recruiting, appointing and orientating new Directors but the Board had reviewed this position and set up a Nomination Committee on 28 May 2001. It comprises three Independent Non-Executive Directors and two Non-Independent Non-Executive Directors, as follows:

- \* Tan Sri Saw Huat Lye (Chairman, Independent Non-Executive Director)
- \* Tan Sri Dato' Alwi Jantan (Senior Independent Non-Executive Director)
- \* Dato' Jaffar bin Ahmad Indot (Independent Non-Executive Director)
- \* Quek Peck Leng (Non-Independent Non-Executive Director)
- \* John Irving (Non-Independent Non-Executive Director)

The Nomination Committee recommends to the Board suitable candidates for appointment as Directors and to fill the seats on committees of the Board. In addition, the Nomination Committee assesses the effectiveness of the Board, the Committees of the Board and the contribution of each individual Director.

The Board, through the Nomination Committee, reviews annually its required mix of skills, expertise, attributes and core competencies from its Directors and succession plans for members of the Board.

As an integral element of the process of appointing new Directors, the Nomination Committee will ensure that there is an orientation and education programme for new Directors with respect to the business and management of the Group. Directors will also receive such further training that may be required from time to time to keep them abreast with relevant changes in laws and regulations,

and the business environment.

Meetings of the Nomination Committee are held as and when required, and at least once a year. During the financial year ended 30 June 2005, one meeting was held on 6 August 2004 which was attended by all Members of the Nomination Committee.

### Re-election of Directors

In accordance with the Company's Articles of Association (Articles), all new Directors who are appointed by the Board are subject to re-election by shareholders at the first opportunity after their appointment. The Articles also provide that at least one-third of the remaining Directors be subject to re-election by rotation at each Annual General Meeting provided always that all Directors, including the Managing Director, shall retire from office at least once every three years but shall be eligible for re-election.

Pursuant to Section 129 of the Companies Act, 1965, Directors who are over the age of 70 years shall retire at every Annual General Meeting and may offer themselves for re-appointment to hold office until the next Annual General Meeting.

## DIRECTORS' REMUNERATION

### Level and Make-up of Remuneration

The Group has adopted the objective as recommended by the Code to determine the remuneration of the Directors so as to ensure that the Company attracts and retains the Directors needed to run the Group successfully. The component parts of their remuneration are structured so as to link rewards to corporate and

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individual performance in the case of Executive Directors. In the case of Non-Executive Directors, the level of remuneration reflects the experience and level of responsibilities undertaken by the individual Non-Executive Director concerned.

### Procedure

The Remuneration Committee is responsible for recommending to the Board the policy framework on terms of employment of and on all elements of the remuneration of Executive Directors and members of the Senior Management of the Company. The Remuneration Committee is authorised to review and recommend the annual bonus and salary increment of the Executive Directors and members of the Senior Management of the Company. Directors' remuneration is decided by the Board with the Director concerned abstaining from deliberations and voting accordingly.

The Remuneration Committee with the majority being Non-Executive Directors comprises the following Members:

- \* Tan Sri Saw Huat Lye (Chairman, Independent Non-Executive Director)
- \* Theo A F de Rond (Non-Independent Executive Director)
- \* Dato' Jaffar bin Ahmad Indot (Independent Non-Executive Director)
- \* Quek Peck Leng (Non-Independent Non-Executive Director)
- \* John Irving (Non-Independent Non-Executive Director)

Meetings of the Remuneration Committee are held as and when required and at least once a year. During the financial year ended 30 June 2005, two meetings were held and the details of attendance of the Members of the Remuneration Committee are as follows:

Name of Member	No of Remuneration Committee meetings attended
Tan Sri Saw Huat Lye	2 out of 2 meetings
Theo A F de Rond	2 out of 2 meetings
Dato' Jaffar bin Ahmad Indot	2 out of 2 meetings
Quek Peck Leng	2 out of 2 meetings
John Irving	1 out of 2 meetings

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### Remuneration Package

The remuneration package for Directors is as follows:

- (a) **Basic Salary**

The Remuneration Committee recommends to the Board the basic salary (which is inclusive of statutory employer contributions to the Employees Provident Fund) for the Executive Directors after taking into account the performance of the Executive Directors, the inflation price index and information from independent sources on the rates of salary for similar jobs in a selected group of comparable companies.
- (b) **Fees**

The Board proposes an aggregate annual fee for Non-Executive Directors to be divided amongst the Non-Executive Directors as the Board may decide and such fee is tabled to the shareholders of the Company for their approval. Attendance allowances for Board meetings and Board Committees meetings are paid to Non-Executive Directors.
- (c) **Bonus Scheme**

The Group sets up a bonus scheme for all employees including the Executive Directors. The criteria for the scheme is the level of profit achieved from the Company's businesses against targets, together with an assessment of each individual's performance. Bonuses payable to Executive Directors are reviewed by the Remuneration Committee and approved by the Board.
- (d) **Benefits-in-Kind**

Other customary benefits (such as car and medical) are made available to Executive Directors as appropriate.
- (e) **Contribution to Employees Provident Fund**

Contributions are made to the Employees Provident Fund in respect of all Malaysian Executive Directors.
- (f) **Notice Period**

The notice period for termination of contract of service of Executive Directors by either the Company or the Executive Directors is three months written notice.

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Directors' Remuneration

The details of the remuneration paid to Directors for the financial years ended 30 June 2004 and 2005 are as follows:

Remuneration	2005		2004	
	Executive Directors RM'000	Non-Executive Directors RM'000	Executive Directors RM'000	Non-Executive Directors RM'000
Fees	-	340	-	180
Benefits-in-kind*	435	-	477	-
Salary & Other emoluments**	2,594	-	2,284	-
<b>Total</b>	<b>3,029</b>	<b>340</b>	<b>2,761</b>	<b>180</b>

Notes:

\* Benefits-in-kind include rental payments, motor vehicle, club membership and personal expenses.

\*\* Other emoluments include bonuses, incentives, retirement benefits, provisions for leave and allowances.

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The number of Directors of the Company whose total remuneration including benefits-in-kind for the financial year ended 30 June 2005 which fall within the required disclosure bands are as follows:

Range of Remuneration	Number of	
	Executive Directors	Non-Executive Directors
0 to RM50,000	-	5
RM50,001 to RM100,000	-	-
RM100,001 to RM150,000	-	1
RM150,001 to RM650,000	-	-
RM650,001 to RM700,000	1	-
RM700,001 to RM750,000	-	-
RM750,001 to RM800,000	1	-
RM800,001 to RM1,550,000	-	-
RM1,550,001 to RM1,600,000	1	-

### EXECUTIVE COMMITTEE (EXCO)

The responsibilities of the EXCO are to discuss matters in relation to the business, financial performance and strategy of the Group. They are to make recommendations and suggestions for approval by the Board where appropriate and to make decisions on behalf of the Board where permitted.

The EXCO with the majority being Non-Executive Directors comprises the following Members:

- \* Tan Sri Saw Huat Lye (Chairman, Independent Non-Executive Director)
- \* Theo A F de Rond (Non-Independent Executive Director)
- \* Quek Peck Leng (Non-Independent Non-Executive Director)
- \* John Irving (Non-Independent Non-Executive Director)

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During the financial year ended 30 June 2005, five EXCO meetings were held and the details of attendance of the Members of the EXCO are as follows:

Name of Member	No of EXCO meetings attended
Tan Sri Saw Huat Lye	5 out of 5 meetings
Theo A F de Rond	5 out of 5 meetings
Quek Peck Leng	5 out of 5 meetings
John Irving	4 out of 5 meetings

### SHAREHOLDERS

#### Dialogue between the Company and investors

The Group recognises the importance of being accountable to its investors and as such has maintained an active and constructive communication policy that enables the Board and Management to communicate effectively with its investors, Stakeholders and the public generally.

The Managing Director and Finance Director hold discussions with analysts and Shareholders periodically. Presentations will be made or road shows undertaken, as appropriate, to explain the Group's strategy, performance and major developments. However, any information that may be regarded as undisclosed material information about the Group will not be given to any single shareholder or shareholder group.

#### Annual General Meeting

At each Annual General Meeting, the Board presents a comprehensive report on the progress and performance of the business and encourages Shareholders to participate in the question and answer session. Executive Directors and, where appropriate, the Chairman of the Board, are available to respond to Shareholders' queries during the meeting. Where appropriate, the Chairman will undertake to provide a written answer to any significant question that cannot be readily answered on the spot.

Each item of special business included in the notice of the meeting will be accompanied by a full explanation of the effects of a proposed resolution. Separate resolutions are proposed for substantially separate issues at the meeting.

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### ACCOUNTABILITY AND AUDIT

#### Audit Committee

The Audit Committee of the Board comprises four Independent Non-Executive Directors, one Non-Independent Non-Executive Director and one Executive Director. The composition and the primary responsibilities of the Audit Committee are set out in the Report of the Audit Committee on pages 84 to 90 of the Annual Report.

The Audit Committee met five times during the financial year ended 30 June 2005. The activities carried out by the Audit Committee during this period are set out in the said Report of the Audit Committee.

#### Financial Reporting

In presenting the quarterly and annual financial statements to shareholders and investors, the Board aims to present a clear, balanced and understandable assessment of the Group's position and prospects. This also applies to other price-sensitive reports and reports to regulators. The Statement by Directors pursuant to Section 169 of the Companies Act, 1965 is set out on page 113 of the Financial Statements section of the Annual Report.

#### Internal Control

The Board acknowledges its responsibilities for the Group's systems of internal control covering not only financial controls but also operational and compliance controls as well as risk management. The internal control system involves each business and key management from each business, including the Board, and is designed to meet the Group's particular needs and to manage the risks to which it is exposed. The systems can therefore only provide reasonable, and not absolute, assurance against any material misstatement or loss.

The Group's internal audit provides independent and objective reports on the Group's management, records, accounting policies and controls to the Audit Committee. The internal audits include evaluation of the processes by which risks are identified, assessed and managed and ensure that controls which are instituted are appropriate and can effectively address acceptable risk exposures. The Group's internal audit also ensures that recommendations to improve controls are followed through by Management.

#### Relationship with External Auditors

The role of the Audit Committee in relation to the external auditors is stated on pages 84 to 90 of the Annual Report.

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### **STATEMENT OF DIRECTORS' RESPONSIBILITY FOR PREPARING THE FINANCIAL STATEMENTS**

As required by the Companies Act, 1965 the Directors are responsible for ensuring that the financial statements of the Group are prepared in accordance with the requirements of the applicable approved accounting standards in Malaysia, provisions of the Companies Act, 1965 and the Listing Requirements of Bursa Malaysia Securities Berhad, and give a true and fair view of the state of affairs of the Group at the end of the financial year.

The Directors are satisfied that in preparing the financial statements for the financial year ended 30 June 2005, the Group has:

- \* adopted appropriate accounting policies and applied them consistently
- \* made judgements and estimates that are prudent and reasonable
- \* ensured that applicable accounting standards have been followed
- \* prepared the financial statements on the going concern basis

# Audit Committee Report

The Audit Committee comprises the following Members:



**Tan Sri Dato' Alwi Jantan**  
Senior Independent Non-Executive  
Director



**Tan Sri Saw Huat Lye (Chairman)**  
Independent Non-Executive Director



**Dato' Jaffar bin Ahmad Indot**  
Independent Non-Executive Director



**Chin Yoong Chong**  
Independent Non-Executive Director



**Low Teng Lum**  
Executive Director



**John Irving**  
Non-Independent Non-Executive Director

## audit committee report

During the financial year ended 30 June 2005, five Audit Committee meetings were held and details of attendance of each Member of the Audit Committee are as follows:

Name of Member	No of Audit Committee meetings attended
Tan Sri Saw Huat Lye	5 out of 5 meetings
Tan Sri Dato' Alwi Jantan	5 out of 5 meetings
Dato' Jaffar bin Ahmad Indot	5 out of 5 meetings
Chin Yoong Chong	5 out of 5 meetings
John Irving	3 out of 5 meetings
Low Teng Lum	5 out of 5 meetings

The Group's external auditors were present at three Audit Committee meetings during the financial year and some Members of Senior Management attended a number of these meetings by invitation.

### Summary of Activities

During the year, the Audit Committee carried out the following activities:

- \* Review of the Annual Report 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 Listing Requirements of Bursa Malaysia Securities Berhad (Bursa Malaysia), 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 Bursa Malaysia prior to the consideration by the Board of Directors

## audit committee report

### Internal Audit:

- \* Review of Internal Audit plans and programmes to ensure adequate scope and comprehensive coverage on the audit activities of the Group
- \* Review of the effectiveness of the audit process, resource requirements for the year and assessed the performance of the Internal Audit Department
- \* Review of Internal Audit reports, audit 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 of reports from the Risk and Control Workgroup (RCW) following their quarterly meetings

### 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 circular on renewal of Shareholders' mandate for recurrent related party transactions
- \* Review of dividend payments
- \* Review of compliance to the Malaysian Code on Corporate Governance
- \* Review of business risks
- \* Review of crisis risks management

### 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.

## audit committee report

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 RCW 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 Bursa Malaysia Listing Requirements, the Board shall fill the vacancy within three months from the date of the vacancy.

#### 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 meetings of the Audit Committee at least once a year to make known their views on any matter under consideration by

## audit committee report

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 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 the prior approval of the Audit Committee. Any inappropriate restrictions on audit scope are to be reported to the Audit Committee.

## audit committee report

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

## audit committee report

- \* to review any appraisal or assessment of the performance of the members of the internal audit function, to approve any appointment or termination of senior staff members of the internal audit function 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 re-appointment, 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 on Corporate Governance for inclusion in the annual report.
  17. To review 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 any 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 made up of 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.

A Risk Management Framework has been implemented to promote effective risk management and enhance the corporate governance assurance process. 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 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 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 Executives 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 all cases of non-compliance are reported to the Audit Committee without exception. Reliance is also placed on the Internal Audit function as well as CARM approach mentioned earlier
- \* Management Executives 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
- \* A half-yearly Hazard Analysis Critical Control Point (HACCP) internal audit to monitor compliance with products' safety requirements

## statement of internal control

- \* 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



Focussing on our people helps us to be highly innovative

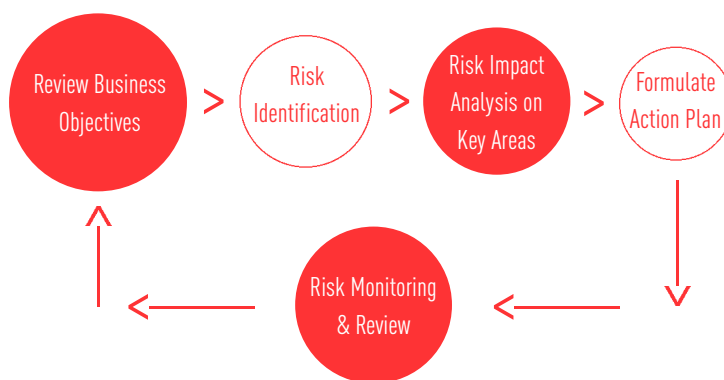
The Group has in place an on-going process in identifying, evaluating and managing the risks faced by the Group in pursuing its business objectives and strategies throughout the financial year ended 30 June 2005.

The Group's risk management process is managed by the Risk and Control Workgroup (RCW) which is 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 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 on 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

The risk management processes are categorised into five broad processes as follows:



Impact		Risk Management Actions	
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
	<b>Low</b>	<b>Medium</b>	<b>High</b>
	<b>Likelihood</b>		

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 RCW 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.

## Corporate Social Responsibility



Theo de Rond, Managing Director (far left), officiates the launch with Datuk Seri Ong Ka Ting (middle) and Sin Chew CEO, Gan Chin Kiew



Tiger raises funds for Chinese schools

## corporate social responsibility

GAB's way of doing business has evolved tremendously over the years and so too has the environment in which we operate. In our business today we have an important social responsibility, regulated by laws and influenced by public opinion. Our business has to think about where the law is going and how the society is evolving as our everyday business activities directly affect the lives of thousands of people as consumers, employees, investors, business partners, neighbours and other interested parties.

In broad terms, this is known as Corporate Social Responsibility (CSR), which includes providing suitable working conditions, applying appropriate health and safety procedures, and going about our business in a socially and an environmentally responsible way. For GAB, CSR means addressing the needs and expectations of our Stakeholders in managing our resources to ensure that our Company prospers responsibly for the sustainability of our environment. This is the trend going forward as we move closer towards self-regulation.

We recognise CSR as a commitment by our business to contribute towards sustainable economic development, working with employees, the local community and society at large. GAB is committed to CSR and we have embarked on this mission by primarily focussing on three areas:

- \* Investing in our Community
- \* Investing in our Environment
- \* Investing in our People

### Investing in Our Community

GAB's community comprises our employees, consumers, customers, business partners, investors and their families. Our profitability and sustainability depends on the support of these communities and it is only right that we lend support to those who have supported us over the years.

Our CSR to the community encompasses philanthropy and environmental conservation and this includes, responsible business behaviour in sales, marketing and distribution of our products. We have a responsibility in monitoring this progress and reporting it regularly, publicly and transparently to our stakeholders. Over the past financial year, we have mooted some very noble initiatives towards such community efforts.

Most of us were moved by the news of the tsunami that was triggered by a powerful earthquake that rocked and devastated many coastal areas in Indonesia, Thailand, India, Sri Lanka, Somalia and Malaysia. Hoping to make a difference in the lives of survivors, GAB donated RM200,000 to The Star Fund in January 2005 to help provide aid for the tsunami victims.

Our employees went a step further by organising a fund-raising charity dinner at The Tavern in February where we raised more than RM75,000 that was donated to the United Nations Children's Fund (UNICEF). On top of that Diageo Foundation agreed to match Ringgit for Ringgit the amount collected by our employees' fund-raising efforts.

## corporate social responsibility

Tiger Sin Chew Chinese Education Charity Concerts continued to organise another round of concerts to raise funds for Chinese schools throughout the country. Since its inception, it has successfully raised RM142 million for the benefit of 320 schools. The funds raised from these concerts were used to improve educational facilities, build multi-purpose assembly halls and contribute towards needy students.

The Guinness Torch Fund, which was set up in 1996, launched its ninth fund in 2004/2005 and raised RM130,000 during the year. The Torch Fund provides financial assistance to Chinese school students. Since its inception, the fund has raised more than RM6 million to help more than 1,000 bright and deserving students. We are pleased to continue this Torch Fund which has become a Guinness tradition and is a cause we strongly believe in and are proud to uphold.

### Investing in Our People

GAB provides full-time employment directly to nearly 600 people and provides indirect employment to business partners, such as dealers, outlets and suppliers, which adds up to more than 20,000 people.

At, GAB, our people are our most valuable asset. We have a responsibility to all our people, direct or indirect, to continue to

invest in them through training while providing a safe and conducive work environment.

Developing our people increases competency and productivity while supporting them boosts self-esteem and work confidence, which is how we attract good people to work for us and for our consumers.

Supporting our community through our employees' time and making charitable contributions also bring many benefits such as:

- \* Expressing an interest in the well-being of the community in which we operate because our employees and consumers are part of it.
- \* Being recognised as a good corporate citizen helps us attract good people to work for and with us.
- \* By participating in our CSR projects, employees gain in terms of exposure, experience and confidence which would further enhance their job performance.

We continue to place great importance on team building activities, sporting events and training as we feel it is important that our people are well-trained as well as physically and mentally fit to handle all organisational and operational matters with regard to our day-to-day business. One of our more recent sporting activities was when futsal stars from 10 teams got together for a futsal tournament organised by our GAB Sports Club.

corporate social responsibility



Teamwork is essential for our success



Investing in our people through training

corporate social responsibility



Celebrating Deepavali, the festival of lights, with our people



Anti-dengue mosquito fogging at the brewery compound

## corporate social responsibility

In addition, training is an ongoing process at GAB and this ensures that our people are able and capable in all that they do, whether it's handling customers or distributors, sales and marketing, knowing the technical aspects of the business or even increasing safety, health and environmental awareness.

GAB continues to focus on safety, health and the environment at the work place and this is why we have in place a comprehensive and effective Safety, Health and Environment policy.

### Safety

Our on-going security enhancement exercise which began in January 2001 is progressing well and nearing completion with numerous security measures employed, including raising the height of our perimeter fencing, upgrading of our 26 analog CCTVs to 34 digital CCTVs with fibre optics, installing a time recorder and security access card system.

The final phase of this exercise is to fence off the car park area and implementing a "Touch-and-Go" car park system where employees will use their access card to enter the car park. This will also segregate the car park from the brewery as an added safety precaution.

The number of accidents at GAB has reduced significantly from 36 in 1995 to zero in 2005 thanks to the efforts of every individual

here. Keeping the incidence of accidents low, if not zero, reduces the loss of working days and man-hours which is costly to the company's productivity. Our efforts towards greater automation has benefited the welfare of our employees as it has clearly helped reduce the number of accidents.

### Health

The health of our employees is paramount to GAB. As a responsible company, we have carried out four rounds of anti-dengue mosquito fogging at our premises to ensure a healthy working environment.

In order to promote a healthy lifestyle at GAB, a three-month weight loss programme was held beginning in May 2005. Posters related to nutrition, diet, exercise and obesity were put up periodically on notice boards and a health talk by a renowned physician was organised for employees.

### VIVA

17 September marked an important milestone for GAB as it was the day we launched our Vision and Values, nicknamed VIVA, and the birth of GAB's new spirit. The winning spirit. VIVA, which means "to live" in Latin, took a whole year to develop and refine before we arrived at our goal. Today, all our people live and breathe VIVA as it sets out the basic principles of GAB's corporate and marketing philosophy and outlines where we want to be.

## corporate social responsibility

### Investing in Our Environment

Responsible companies serve an economic purpose with processes that minimise the use of raw material, minimise harmful side-effects to people, and minimise environmental damage. Responsible behaviour should exist from the start of the value chain to its finish.

Energy and raw materials conservation measures not only benefit the environment but also result in higher cost-savings for our business. Treating our waste to minimise its harmful effect to the environment and its people, and the responsible handling of the world's depleting resources by reducing waste and recycling, are our responsibility.

Last year GAB disposed of almost 300 tonnes of rubbish (plastic wrappers, broken wood and others) and sold more than 10,000 tonnes of used cartons, broken bottles, damaged cans, paper and spent grain.

Recycling in the office is encouraged where used A4 paper is placed beside all photocopying machines within the office for use.

GAB also lives up to its role as a good corporate citizen by ensuring that wastewater or effluents are properly treated at the brewery. For this we have in place at the brewery a wastewater treatment plant. Plant expansion 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.

We have successfully reduced water consumption, fuel consumption as well as production electricity consumption over the past few years. Water consumption has been reduced by 13 per cent since 2002 while fuel consumption and production electricity consumption dropped by 0.88% and 1.58% respectively from the previous year.

Specific Energy Consumption, which measures the total usage of heat energy and electricity, also reduced by 1.15% from the previous year. Meanwhile, biogas usage which comprises the usage of recyclable energy at zero cost, increased by 1.24% compared to the last financial year.

This further underscores the attention GAB pays to the environment in which we operate.

corporate social responsibility



The arrival of 16 new forklifts was a part of the uninterrupted upgrading and expansion



Leveraging on smart card technology for security enhancement



## Winning spirit

Our Asian values and winning spirit drive us to be the best, to grow our business with respect, to appreciate one another and to lead our competitors.