

# Corporate Governance Statement

*The founders of the IJM Group recognised that high standards of corporate governance are imperative to safeguard the interests of all stakeholders and to enhance shareholders' value. In view of this, all companies within the Group had established the basic framework of good corporate governance practices within its organisation and operations long before the promulgation of the Malaysian Code of Corporate Governance (the Code).*

*The Board of Directors (the Board) fully supports and is committed to ensure that the highest standards of corporate governance are practised throughout the Group. The Board continues to encourage professionalism, integrity and good governance as the corporate culture and way forward for the Group to provide an environment for good performance by its people and to provide better returns to its shareholders.*



## I. BOARD OF DIRECTORS

### 1. Composition of the Board

Of the ten Board members, seven are Non-executive Directors. Amongst the Non-executive Directors, four are Independent Non-executive Directors. The Chairman is one of the Independent Non-executive Directors. Y. Bhg. Tan Sri Dato' (Dr) Haji Murad bin Mohamad Noor is the Senior Independent Non-executive Director.

The role of the Independent Non-executive Chairman and the Chief Executive Officer & Managing Director ("CEO & MD") are distinct and separate. The Independent Non-executive Chairman avails himself to provide clarifications on issues that are raised by the shareholders and investors to ensure the integrity and effectiveness of the governance process of the Board. The Independent Non-executive Chairman also maintains regular dialogues with the CEO & MD on all operational matters and acts as the facilitator at the Board meetings. The CEO & MD has overall responsibility for the day-to-day management of the business and implementation of the Board's policies and decisions. The CEO & MD is responsible to duly ensure execution of strategic goals, effective operation within the Group, and to explain, clarify and inform the Board on matters pertaining to the Group. This division of responsibility between the Chairman and CEO & MD ensures that the accountability is given high priority.

The profile of each Director is presented on pages 22 to 26.

## 2. Duties and Responsibilities of the Board

As an effective Board, it leads, provides strategic direction and manages the Group. The Directors are professionals in the field of engineering, finance, accounting, economics or experienced senior civil administrators. Together, they bring a wide range of competencies, capabilities, technical skills and relevant business experiences to ensure that the Group continues to be a competitive leader in the construction industry with a strong reputation for technical and professional competence.

The Non-executive Directors bring independent judgment on issues of strategy, business performance, resources and standards of conduct. The Independent Non-executive Directors provide independent and constructive views in ensuring that the strategies proposed by the management are fully studied and deliberated in the interest of the Group and also all stakeholders.

The Board is primarily responsible for the Group's overall strategic plans for business performance, succession planning, risk management, investor relations programmes, internal control and management information systems. While the Board is responsible for creating the framework and policies within which the Group should be operating, the management is accountable for the execution of the expressed policies and attainment of the Group's expressed corporate objectives. This demarcation complements and reinforces the supervisory role of the Board.

The Company may from time to time use the services of retired Executive Directors for specific roles in the Company's operations for specific periods. These Directors are paid remuneration for their services.

## 3. Board Meetings

The Board conducts at least four regularly scheduled meetings annually, with additional meetings convened as and when necessary. During the financial year, six Board meetings were held.

The attendance record of each Director was as follows:

	Number of Meetings Attended	Percentage
<b>Executive Directors</b>		
Dato' Tan Boon Seng @ Krishnan	6 out of 6	100%
Dato' Goh Chye Koon	5 out of 6	83%
Soo Heng Chin	6 out of 6	100%
<b>Independent Non-Executive Directors</b>		
Tan Sri Dato' Ir (Dr) Wan Abdul Rahman bin Wan Yaacob	6 out of 6	100%
Tan Sri Dato' (Dr) Haji Murad bin Mohamad Noor	5 out of 6	83%
Datuk Oh Chong Peng	6 out of 6	100%
Datuk Yahya bin Ya'acob	6 out of 6	100%
<b>Non-Executive Directors</b>		
Dato' Goh Chye Keat	6 out of 6	100%
Dato' Ismail bin Shahudin	5 out of 6	83%
Dato' (Dr) Megat Abdul Rahman bin Megat Ahmad (Appointed on 31 October 2005)	2 out of 2	100%
Abd Hamid bin Othman (Resigned on 13 September 2005)	3 out of 3	100%
Dato' Abdullah bin Mohd Yusof (Resigned on 5 July 2005)	1 out of 1	100%
<b>Alternate Directors</b>		
Tan Gim Foo, Alternate to Soo Heng Chin (Appointed on 1 September 2005)	3 out of 3	100%
Teh Kean Ming, Alternate to Dato' Goh Chye Keat (Appointed on 1 September 2005)	2 out of 3	67%

# Corporate Governance Statement (cont'd)

Besides these Board meetings, the Directors also attend several tender adjudication meetings and investment briefings where members deliberated on the Group's participation in major project bids and/or investments. Informal meetings and consultations are frequently and freely held to share expertise and experiences. Directors also attend the annual senior management dialogue where operational strategies, performance progress and other issues are extensively presented, discussed and communicated to senior managers of the Group.

## 4. Supply of Information

As a general rule, the Board reports are circulated to all the Directors ahead of the scheduled meetings to give them the opportunity to seek clarification or seek additional information on the financial performances of the entities and business units, and other issues which may require discussion and decision.

Amongst others, the report provides information on major operational, financial and corporate issues, activities and performance of projects, divisional performance and reasons for significant diversions from the budgets and major changes in the Group structure and securities transactions (including the summary of dealings of securities of the Directors, Principal Officers and substantial shareholders).

In addition to the quarterly Board meetings, briefings are conducted for the Board on various issues such as the changes to the companies and securities legislations, rules and regulations from time to time to inform them of the latest developments in these areas.

The Directors are also notified of any corporate announcements released to the Bursa Malaysia Securities Berhad ("Bursa Securities"). They are also notified of the impending restriction in dealing with the securities of the Company at least one month prior to the release of the quarterly financial result announcement.

In addition, there is a schedule of matters reserved specifically for the Board's deliberation, such as the approval of corporate plans and annual budgets, acquisitions and disposals of undertakings and properties of a substantial value, and changes to the management and control structure within the Group, including key policies, delegated authority limits and participation in the adjudication of tenders for construction project in excess of established limits.

All Directors have access to the advice and services of a full time Company Secretary appointed by the Board, and they have been issued with the Listing Manual of Bursa Securities, the Code, Statement on Internal Control: Guidance for Directors of Public Listed Companies and Code of Ethics for Directors and Secretaries, updates on company and securities legislations and other relevant rules and regulations.

## 5. Committees Established by the Board

The Board has delegated certain functions to the Committees it established to assist in the execution of its responsibilities. The Committees operate under clearly defined terms of reference. The Chairman of the respective Committees reports to the Board on the outcome of the Committee meetings and such reports are included in the Board papers.

### A. Executive Committee

The Executive Committee was established on 31 March 1995 and its membership consists of the Executive Directors of the Board. The Executive Committee meets monthly to review the performance of the Group's operating divisions. In attendance are the Finance Director, Head of Divisions, the Company Secretary and relevant departmental heads.

The terms of reference of the Executive Committee include the following:

- to decide on all transactions and matters relating to the Group's core businesses or existing investments within the restricted authority given by way of limits determined by the Board; and
- to decide on all matters relating to banking facilities as may be required in the conduct of the Group's operations.

During the financial year, 12 Executive Committee meetings were held. The attendance record of each member of the Committee was as follows:

Executive Directors	Number of Meetings Attended	Percentage
Dato' Tan Boon Seng @ Krishnan	12 out of 12	100%
Dato' Goh Chye Koon	10 out of 12	83%
Soo Heng Chin	11 out of 12	92%

#### B. Audit Committee

The Audit Committee was established on 31 January 1994 and is chaired by Y. Bhg. Tan Sri Dato' (Dr) Haji Murad bin Mohamad Noor. Other members of the Audit Committee are Y. Bhg. Tan Sri Dato' Ir. (Dr) Wan Abdul Rahman bin Wan Yaacob, Y. Bhg. Datuk Oh Chong Peng and Y. Bhg. Datuk Yahya bin Ya'acob. The terms of reference and summary of activities of the Audit Committee are set out on pages 67 and 68.

#### C. Nomination & Remuneration Committee

The Remuneration Committee was established on 2 December 1998 and was renamed Nomination & Remuneration Committee on 16 May 2001. The Nomination & Remuneration Committee comprises four members; three of them are Independent Non-executive Directors, namely Y. Bhg. Tan Sri Dato' (Dr) Haji Murad bin Mohamad Noor (Chairman), Y. Bhg. Tan Sri Dato' Ir. (Dr) Wan Abdul Rahman bin Wan Yaacob and Y. Bhg. Datuk Yahya bin Ya'acob. The other member is Y. Bhg. Dato' Goh Chye Keat.

The terms of reference of the Nomination & Remuneration Committee include the following:-

- to establish and review the terms and conditions of employment and remuneration of the Executive Directors and senior executives of the Group;
- to review and approve the annual salary increments and bonuses of the Executive Directors and senior executives of the Group
- to review, recommend and consider candidates to the Board of the Company, subsidiaries and associates of the Group, including committees of the Board;
- to review and determine the mix of skills, experience and other qualities, including core competencies of Non-executive Directors on an annual basis; and
- to assess the effectiveness of the Board as a whole, the committees of the Board and the contribution of each individual Director on an annual basis.

The Nomination & Remuneration Committee will meet as required. A meeting was held during the financial year. All recommendations of the Nomination & Remuneration Committee are subject to the endorsement of the Board.

#### D. Share Committee

The Share Committee was established on 3 September 1986 and is responsible for regulating and approving the securities transactions and registrations. The Share Committee comprises Y. Bhg. Dato' Tan Boon Seng @ Krishnan (Chairman), Y. Bhg. Dato' Goh Chye Koon and Mr Soo Heng Chin.

#### E. Employee Share Option Scheme (ESOS) Committee

A new ESOS Committee was established on 30 October 2003 and is responsible for the implementation and administration of the new ESOS of the Company. The ESOS Committee comprises Y. Bhg. Tan Sri Dato' (Dr) Haji Murad bin Mohamad Noor (Chairman), Y. Bhg. Dato' Goh Chye Koon and Mr Soo Heng Chin.

# Corporate Governance Statement (cont'd)

## 6. Appointments to the Board

The Nomination & Remuneration Committee is responsible for making recommendations to the Board, including those of subsidiaries and associated companies. In making these recommendations, the Nomination & Remuneration Committee considers the required mix of skills and experience, which the Directors should bring to the Board. Directors are informed and are aware that they may take independent advice, where necessary, in furtherance of their duties at the Group's expense.

## 7. Re-election

The Articles of Association provides that all Directors should submit themselves for re-election at least every three years in compliance with the Listing Requirements of Bursa Securities. The Articles of Association of the Company also provide that one third of the Board shall retire from office and be eligible for re-election at every Annual General Meeting.

Directors over seventy years of age are required to submit themselves for re-appointment annually in accordance with Section 129(6) of the Companies Act, 1965 ("the Act").

## 8. Directors' Training

All the Directors have attended the Directors' Mandatory Accreditation Programme organised by the Bursa Securities, and are aware of the requirement of the Continuing Education Programme set by Bursa Securities. Directors also receive further training from time to time, particularly on relevant new laws and regulations and changing commercial risks. A brief induction course is provided to newly appointed Directors.

During the year, six seminars had been organised for the Directors and senior management as follows:-

- 1) Strategic and Operational Risk Management;
- 2) Board Room Finance for Directors;
- 3) The Value of Integrity: Understanding The Hidden Value of Business Intangibles;
- 4) Business Impact of New Financial Reporting Standards;
- 5) Goods and Services Tax Awareness; and
- 6) Corporate Fraud and Failure.

The Company will on a continuous basis, evaluate and determine the training needs of its Directors.

Where possible and when the opportunity arises, Board meetings may be held at locations within the Group's operating businesses to enable the Directors to obtain a better perspective of the business and enhance their understanding of the Group's operations.



## II. REMUNERATION

The remuneration policy of the Company is based on the philosophy that the Group does not aspire to be a market leader for basic salary but will give a heavy weightage on performance-related bonuses. These are entrenched in the remuneration policy for Executive Directors.

The Nomination & Remuneration Committee reviews annually the remuneration policy for Executive Directors to ensure that they are rewarded appropriately for their contributions to the Group's growth and profitability.

The performance of Directors is measured by the Directors' contribution and commitment to both the Board and the Group. The Executive Directors' remuneration will depend on the achievement of the goals (including quantified organisational targets and personal achievement) set at the beginning of each year.

In the case of Non-executive Directors, the level of remuneration reflects the experience and level of responsibilities undertaken by the particular Non-executive Director.

The Board determines the remuneration of the Executive and Non-executive Directors. The Company reimburses reasonable expenses incurred by these Directors in the course of their duties as Directors.





*The annual Senior Management Dialogue and site visits provide invaluable insights into the Group's operations*

#### 1. Fees

Fees payable to Non-executive Directors are determined by the Board with the approval of the shareholders at the Annual General Meeting. Fees are payable based on attendances at meetings and the Director's level of responsibility within the Board and its Committees.

#### 2. Basic Salary

The Nomination & Remuneration Committee conducts an annual review of the basic salary for all senior executives taking into account the performance of the individual and the company and the practices within the industry. The Group participates in industry specific surveys by independent professional firms to obtain current data in benchmarking the Group.

#### 3. Bonus and Incentive Scheme

The Group operates a bonus and incentive scheme for all its employees, including the Executive Directors. The criteria for the scheme are dependent on the financial performance of the Group based on an established formula and the performance of each individual employee. Bonus and incentives payable to the Executive Directors are reviewed and approved by the Nomination & Remuneration Committee and is endorsed by the Board.

#### 4. Benefits-in-Kind

Other customary benefits such as private medical care and car are made available in accordance with the guidelines laid out in the IJM Scheme and Conditions of Service.

#### 5. Pension Arrangements

Contributions are made to the Employees Provident Fund, the national mandatory defined contribution plan, in respect of all employees and Malaysian-resident Executive Directors. In addition, all existing employees and Executive Directors (joining prior to November 2005) participate in the Group's funded final salary defined plan, known as the IJM Retirement Scheme, with the objective of providing a reasonable lump sum upon retirement and on grounds of chronic ill-health. The scheme also provides for lump sum payments in the event of death in service.

#### 6. Directors' Share Options and Warrants

The Group also rewards its staff with a share options under its Employee Share Option Scheme. During the financial year, the Group has issued 10,000,000 warrants to the entitled management staff at RM0.05 per warrant.

The movement in Directors' share options and warrants during the financial year are set out on pages 92 and 93.

# Corporate Governance Statement (cont'd)

## 7. Directors' Remuneration

The details of the remuneration of Directors during the year are as follows:

### A. Aggregate remuneration of Directors categorised into appropriate components:

	Salaries RM'000	Fees RM'000	Bonus, Incentives & Others RM'000	Retirement Benefits RM'000	EPF RM'000	Benefits- in-kind RM'000	Total RM'000
Executive Directors	1,646	0	2,308	85	650	64	4,753
Non-executive Directors	0	312	165	0	0	17	494

### B. Aggregate remuneration of each Director:

Executive Directors	RM'000
Dato' Tan Boon Seng @ Krishnan	1,687
Dato' Goh Chye Koon	1,328
Soo Heng Chin	590
<b>Non-Executive Directors</b>	
Tan Sri Dato' Ir. (Dr) Wan Abdul Rahman bin Wan Yaacob	104
Tan Sri Dato' (Dr) Haji Murad bin Mohamad Noor	86
Datuk Oh Chong Peng	55
Datuk Yahya bin Ya'acob	65
Dato' Goh Chye Keat	93
Dato' Ismail bin Shahudin	41*
Dato' Megat Abdul Rahman bin Megat Ahmad ( <i>Appointed on 31 October 2005</i> )	2
Abdul Hamid bin Othman ( <i>Resigned on 13 September 2005</i> )	30
Dato' Abdullah bin Mohd Yusof ( <i>Resigned on 5 July 2005</i> )	18*
<b>Alternate Directors</b>	
Tan Gim Foo ( <i>Appointed on 1 September 2005 as alternate to Soo Heng Chin</i> )	492#
Teh Kean Ming ( <i>Appointed on 1 September 2005 as alternate to Dato' Goh Chye Keat</i> )	656#

\* The fees and allowances were paid to Tronoh Consolidated Malaysia Berhad.

# Aggregate remuneration received during the financial year.

## III. INVESTOR RELATIONS AND SHAREHOLDERS COMMUNICATION

### 1. Dialogue between the Company and Investors

The Company places great importance in ensuring the highest standards of transparency and accountability in the disclosure of information of interest to its shareholders as well as to potential investors or even the public.

Various announcements and disclosures to the Bursa Securities are made during the year, including the timely release of financial results on a quarterly basis, provide the shareholders and the investing public with an overview of the Group's performance and operations.

At every Annual General Meeting, a presentation is given by the CEO & MD to explain the Group's strategy, performance and major developments to shareholders. Any information that may be regarded as material would not be given to any single shareholder or shareholder group on a selective basis except to the extent of their representation in the Board.

The Group conducts dialogues with financial analysts from time to time as a means of effective investors relationship. At least two scheduled company briefings are held each year, usually co-inciding with the release of the Group's second and final quarterly results to explain the results achieved and the strategies going forward. A press conference is normally held after the Annual General Meeting and/or Extraordinary General Meeting of the Company. The Company had also participated in several institutional investors' forums during the financial year both locally and outside Malaysia.

A summary of the Group's investor relations activities during the financial year are as follows:-

	Number of Meetings
<b>Regular meetings with investors/fund managers/analysts, etc</b>	
1. Company Briefings	4
2. Press Conferences	7
3. Meetings with visiting investors/fund managers/analysts	80
<b>Participation at Local Road Shows/Exhibitions</b>	
1. Conferences	5
<b>Overseas Investors Conferences</b>	
1. Edinburgh/Frankfurt/Hong Kong/London	1 each
2. Singapore	2

The Annual Report contains commentaries on business, financial and operational aspects of the Group's performance, a brief description of the Group's services and products and the financial statements of the Group.

## 2. Annual General Meeting

The Annual General Meeting is the principal forum for dialogue with shareholders. The notice of meeting and the annual report are sent out to shareholders at least 21 days before the date of the meeting in accordance with the Company's Articles of Association.

At each Annual General Meeting, the Board encourages the shareholders to participate in the question and answer session. The Chairman and, where appropriate, the CEO & MD respond to shareholders' questions during the meeting. Where appropriate, the Chairman will undertake to provide a written answer to any significant question that cannot be readily answered at the meeting.

In the case of the re-election of Directors, the notice of meetings will state which Directors are standing for election or re-election.

Each item of special business included in the notice of the meeting is accompanied by an explanation for the proposed resolution. Separate resolutions are proposed for substantially separate issues at the meeting, and the Chairman will declare the number of proxy votes received both for and against the resolutions prior to voting of each of the resolutions.

## 3. Openness and Transparency

The Group has established a very comprehensive and current website at <http://www.ijm.com> to further enhance investor relations and shareholders communication, including their access to information about the Company and the Group. Amongst others, the website provides information on the daily movement of the securities of the Company, corporate announcements released to the Bursa Securities, what others say of the Group, annual reports, minutes of general meetings, distribution of dividends, unclaimed dividends, securities dealings of Directors, Principal Officers and substantial shareholders, and a profile of the Group.

To serve the stakeholders of the Group better via the established Investor Relations webpage column, the feedback page serves to provide avenues for the Group to improve via email: [ijm@ijm.com](mailto:ijm@ijm.com). In addition, stakeholders who wish to reach the Group can do so through 'Contact Us' page with the respective contact details of the divisions provided.



# Corporate Governance Statement (cont'd)

## IV. ACCOUNTABILITY AND AUDIT

### 1. Financial Reporting

In presenting the annual financial statements and quarterly announcements to the shareholders, the Board aims to present a balanced and understandable assessment of the Group's position and prospects. This also applies to other price sensitive public reports and reports to regulators.

### 2. Directors' Responsibility Statement

The Directors are required by the Act to prepare the financial statements for each financial year in accordance with the applicable approved accounting standards to give a true and fair view of the state of affairs of the Group and the Company at the end of the financial year and of the results and cash flows of the Group and the Company for the financial year.

In preparing the financial statements, the Directors have:

1. adopted appropriate accounting policies which are consistently applied;
2. made judgments and estimates that are reasonable and prudent;
3. ensured that all applicable accounting standards have been followed; and
4. prepared financial statements on the going concern basis as the Directors have a reasonable expectation, having made enquiries, that the Group and the Company have adequate resources to continue in operational existence in the foreseeable future.

The Directors are responsible for ensuring that the Company keeps accounting records which 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.

The Directors have also prepared voluntarily an Impact of Financial Reporting Standards ("FRS") on the Financial Statements to give an insight of the imminent implementation of the FRS.

The Directors have overall responsibilities for taking such steps as are reasonably open to them to safeguard the assets of the Group and the Company, and to prevent fraud and other irregularities. The Group has also implemented the Policy & Procedure for Reporting Fraud, Waste and/or Abuse involving the Resources of the Company, under which, if an employee suspects that fraud, waste, or abuse has occurred, the employee is encouraged to and given a direct avenue to contact the Group Internal Audit Department, CEO & MD or the Company Secretary.

### 3. Internal Control

The Group's Internal Control Statement is set out on pages 71 to 73.

### 4. Relationship with the Auditors

The role of the Audit Committee in relation to the external auditors is set out on pages 67 to 70.

Signed on behalf of the Board of Directors in accordance with their resolution dated 7 July 2006.



**Tan Sri Dato' Ir. (Dr) Wan Abdul Rahman bin Wan Yaacob**  
Chairman

# Audit Committee Report

## MEMBERSHIP AND MEETINGS

The Audit Committee met on five (5) occasions during the year ended 31 March 2006 and the attendance of each member of the Audit Committee was as follows:

	No. of meetings held during the year	No. of meetings attended
Y. Bhg. Tan Sri Dato' (Dr) Haji Murad bin Mohamad Noor <i>Chairman of the Audit Committee (Senior Independent Non-Executive Director)</i>	5	5
Y. Bhg. Tan Sri Dato' Ir. (Dr) Wan Abdul Rahman bin Wan Yaacob <i>Member (Independent Non-Executive Director)</i>	5	5
Y. Bhg. Datuk Oh Chong Peng <i>Member (Independent Non-Executive Director)</i>	5	5
Y. Bhg. Datuk Yahya bin Ya'acob <i>Member (Independent Non-Executive Director)</i>	5	5

## SUMMARY OF ACTIVITIES FOR THE FINANCIAL YEAR

During the year, the Audit Committee carried out its duties, which are set out in the terms of reference on page 70.

Aside from these duties, the main activities performed by the Audit Committee during the financial year ended 31 March 2006 were as follows:

- reviewed the quarterly financial result announcements and the year end financial statements of the Group;
- reviewed the audit strategy and plan with the external auditors;
- reviewed the findings of the external auditors in relation to audit and accounting issues arising from the audit, and updates of new developments on accounting standards issued by the Malaysian Accounting Standards Board; The Audit Committee and the external auditors had a meeting to discuss matters arising from their audit of the Group without the presence of the executive Board members and the management.



### MEMBERS OF THE AUDIT COMMITTEE

*left to right: Datuk Oh Chong Peng, Tan Sri Dato' Ir. (Dr) Wan Abdul Rahman Bin Wan Yaacob, Tan Sri Dato' (Dr) Haji Murad Bin Mohd Noor and Datuk Yahya Bin Ya'acob*



# Audit Committee Report (cont'd)

- reviewed the related party transactions that arose within the Company or Group;
- reviewed and approved the annual audit plan proposed by the Internal Auditors;
- reviewed the audit reports presented by the Internal Auditors on their findings and recommendations with respect to system and control weaknesses;
- reviewed the Risk Management Committee's reports and findings; and
- the verification of options' allocations conducted by the Internal Auditors in relation to the Employee Share Option Scheme (ESOS) of the Company. The Audit Committee was satisfied that the allocation of options pursuant to ESOS during the financial year ended 31 March 2006, is consistent with the criteria set out in the Bye-Laws of the ESOS and by the ESOS Committee.
- the Audit Committee and the external auditors had a meeting to discuss matters arising from their audit of the Group without the presence of the Management.

## INTERNAL AUDIT FUNCTION

The Group's internal audit function is carried out by the Internal Audit Department which reports to the Audit Committee on its activities based on the approved annual Internal Audit Plan. Giving adequate weightage to the size of operations and risks involved, the approved annual Internal Audit Plan is designed to cover projects and entities across all levels of operations within the Group. During the year, audits performed not only focused on the Malaysian construction and properties division but also included overseas operations particularly in India. The department continues to provide internal audit services to IJM Plantations Berhad and Industrial Concrete Products Berhad and in an effort to provide value added services, it also plays an active role in an advisory capacity in the review and improvement of existing internal controls within the Group.

The Internal Audit Department adopts a risk-based auditing approach taking into account global best practices and industry standards. The main role of the Internal Audit Department is to provide the Audit Committee with independent and objective reports on the effectiveness of the system of internal control within the Group.

During the year, the system of internal controls that encompass the Group's governance, operations and information systems of major areas of the Group's operations, were evaluated by the Internal Audit Department.

The Audit Committee then deliberated on the internal audit reports and recommendations from the reports were duly acted upon by management.

## TERMS OF REFERENCE OF THE AUDIT COMMITTEE

### Membership

The Audit Committee shall be appointed by the Board of Directors from amongst the Directors and shall consist of not less than three members. The majority of the audit committee members must be independent Directors. The members of an audit committee shall elect a chairman from among their number who shall be an independent director. An alternate director must not be appointed as a member of the Audit Committee.

At least one member of the Audit Committee:

- (i) must be a member of the Malaysian Institute of Accountants; or
- (ii) if he is not a member of the Malaysian Institute of Accountants, he must have at least three years' working experience and:
  - (a) he must have passed the examinations specified in Part I of the 1st Schedule of the Accountants Act 1967; or
  - (b) he must be a member of one of the associations of accountants specified in Part II of the 1st Schedule of the Accountants Act 1967.

- (iii) (a) must have a degree/masters/doctorate in accounting or finance and at least three years' post qualification experience in accounting or finance; or
- (b) must have at least seven years' experience being a Chief Financial Officer of a corporation or having the function of being primarily responsible for the management of the financial affairs of a corporation.

The Board of Directors must review the term of office and performance of the Audit Committee and each of its members at least once every three years to determine whether the audit committee members have carried out their duties in accordance with the terms of reference.

#### **Meetings and minutes**

Meetings are held at least four times a year, and will normally be attended by the Finance Director and Head of Internal Audit, and if required, the external auditors. Other Board members may also attend meetings upon the invitation of the Audit Committee. At least once a year, the Committee shall meet with the external auditors without any executive officer of the Group being present. The auditors, both internal and external, may request a meeting if they consider that one is necessary.

A quorum consists of two members present and a majority of whom must be independent directors.

The Company Secretary acts as secretary to the Audit Committee. Minutes of each meeting are distributed to each Board member and the Chairman of the Committee reports on key issues discussed at each meeting to the Board.

#### **Authority**

The Audit Committee shall have the following authority as empowered by the Board:

- to investigate any activity within its term of reference;
- full, free and unrestricted access to any information pertaining to the Group;
- direct communication channels with the external and internal auditors, as well as all employees of the Group; and
- to obtain external independent professional advice as necessary.



#### **INTERNAL AUDIT DEPARTMENT**

*left to right: Su Cheong Ling, Tan Heng Meng, Lyndon Alfred Felix, Lee Hoi Yen and Kumaran Sivagurunathan*

# Audit Committee Report (cont'd)

“...To monitor any related party transactions and situations where a conflict of interest may arise within the Company or Group including any transaction, procedure ...”

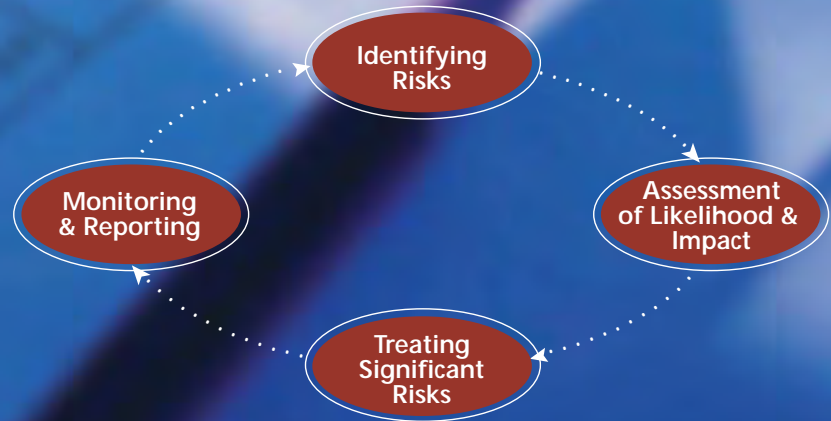
## Duties

The following are the main duties and responsibilities of the Committee collectively:

- 1) To review the quarterly results to Bursa Malaysia Securities Berhad (Bursa Securities) and year end financial statements of the Group before submission to the Board, focusing particularly on:
  - (i) the going concern assumption;
  - (ii) any changes in accounting policies and practices;
  - (iii) significant issues arising from the audit;
  - (iv) compliance with accounting standards, regulatory and other legal requirements; and
  - (v) major judgmental areas.
- 2) To consider the nomination and appointment of external auditors, as well as their audit fee.
- 3) To consider any letter of resignation from the external auditors, and any questions of resignation or dismissal.
- 4) To discuss with the external auditors, prior to the commencement of audit, their audit plan, which states the nature of the audit, and to ensure co-ordination of audit where more than one audit firm is involved.
- 5) To review with the external auditors, their evaluation of system of internal controls, their management letter and the management's response.
- 6) To review the assistance given by the employees of the Company to the external auditors.
- 7) To review the following in respect of internal audit:
  - (i) the adequacy of the audit scope and resources of the internal audit function and that it has the necessary authority to carry out its functions;
  - (ii) the internal audit plan and programme;
  - (iii) the major findings of internal audit investigations and management's responses, and ensure appropriate actions are taken on the recommendations of the internal audit function;
  - (iv) assessment of the performance of the staff of the internal audit function;
  - (v) appointment or termination of senior staff members of the internal audit function; and
  - (vi) resignations of internal audit staff members and provide resigning staff member an opportunity to submit his/her reason for resignation.
- 8) To monitor any related party transactions and situations where a conflict of interest may arise within the Company or Group including any transaction, procedure or course of conduct that raises questions of management integrity. They are also required to ensure that the Directors report such transactions annually to the shareholders via the annual report.
- 9) To review the reports of the Risk Management Committee in relation to the adequacy and integrity of the Group's internal control system.
- 10) To discuss problems and reservations arising from the interim and final external audits, and any matters the external auditors may wish to discuss (in the absence of management, where necessary).
- 11) To review all prospective financial information provided to the regulators and/or the public.
- 12) To report promptly to Bursa Securities on any matter reported by it to the Board of Directors, which has not been satisfactorily resolved resulting in the breach of the Listing Requirements of Bursa Securities.
- 13) To consider other matters as may be directed by the Board from time to time.

# Internal Control Statement

## RISK MANAGEMENT PROCESS



### RESPONSIBILITY

The Board of Directors recognises the importance of sound internal control and risk management practices to good corporate governance. The Board affirms its overall responsibility for IJM Group's systems of internal control and risk management, and for reviewing the adequacy and integrity of those systems. It should be noted, however, that such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives. In addition, it should be noted that such systems can provide only reasonable, and not absolute, assurance against material misstatement or loss.

The Group has put in place an ongoing risk management process of identifying, documenting, evaluating, monitoring and managing significant risks affecting the achievement of its business objectives.

### RISK MANAGEMENT FRAMEWORK

The Board has established an organisational structure with clearly defined lines of accountability and delegated authority. It has extended the responsibilities of the Audit Committee to include the work of monitoring all internal controls on its behalf, with the assistance of the Internal Audit Department (refer to Audit Committee Report).

The Group has put in place a Risk Management Committee (RMC), which is chaired by the Group's Finance Director and includes representatives from all the divisions. Each business division's risk management function is led by the respective head of the division. The RMC is tasked to develop and maintain an effective risk management system in the Group. Its reviews cover matters such as responses to significant risks identified, changes to internal control systems and output from monitoring processes. It reports regularly to the Audit Committee, which dedicates separate time for discussion of this subject.



## Internal Control Statement (cont'd)

“... systems are designed to manage rather than eliminate the risk of failure to achieve business objectives ...”

The Group's risk management system has been developed with the help of external experts. Risk assessment and evaluation take place as an integral part of the annual strategic planning cycle. Having identified the risks to achievement of their strategic, financial, operational and other business objectives, each business or functional unit is required to document the management's mitigating actions for each significant risk. New areas are introduced for assessment as the business risk profile changes.

Under this system, each business or functional unit, excluding associates and joint ventures, prepares annually a 'risk map' which summarises the risks, the controls and processes for managing them and the means for assuring management that the processes are effective. The Group's Head Office also considers the risks to the Group's strategic objectives, which are not addressed by the business or functional units. The risk maps and any proposed changes to the controls and processes are reported to the RMC which summarises them for consideration by the Audit Committee.

With threats of terrorism and bird flu outbreak in various parts of the world, and other potential hazards such as fire and flood, amongst others, continuity of business operations is a major concern. The Group is developing an enhanced plan to ensure the continuity of critical business functions in the event of a crisis. Regular incident management drills at our property ranging from basic fire safety to mass evacuation drills are conducted to ensure our employees are well prepared and familiar with our emergency response and crisis management plans.



**RISK MANAGEMENT COMMITTEE**

left to right: Purushothaman s/o Kumaran, Ong Teng Cheng, Raw Koon Beng, Khor Kiem Teoh and Loy Boon Chen

## OTHER KEY ELEMENTS OF INTERNAL CONTROL

The other key elements of the Group's internal control system include:

- clearly defined delegation of responsibilities to committees of the Board and to operating units, including authorisation levels for all aspects of the business which are set out in an authority mix;
- clearly documented standard operating policies and procedures which are subject to regular review and improvement;
- regular and comprehensive information provided to management, covering financial performance and key business indicators, such as staff utilisation and cash flow performance;
- a detailed budgeting process where operating units prepare budgets for the coming year which are approved both at divisional unit level and by the full Board;
- monthly monitoring of results against budget, with major variances being followed up and management actions taken, where necessary; and
- visits to operating units by members of the Board and senior management.

During the year, all the Divisions within the Group have carried out their annual reviews on their risk profiles and accordingly certain changes to the risk management and internal control process have been made. The changes were reviewed by the Risk Management Committee (RMC) and were subsequently reported to the Audit Committee.

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.

The Group will continue to monitor all major risks affecting the Group under its RMC and take the necessary actions to mitigate or eliminate them, providing a framework for safeguarding our competitive position worldwide.



**RISK MANAGEMENT COMMITTEE** (cont'd)

*left to right: Khoo Kah Hock, Sivakumar s/o Rajappan, Wee Kee Hong, Pang Sek Loh, Low Hong Imm and Chiong Chin Chai*

# Statement on Quality



Quality audits are carried out frequently



A Quality Management Committee review in progress



A quality control test being conducted

Deeply rooted in its motto, "Excellence Through Quality", the Group is committed to deliver quality products and services, and continues to seek superior standards to ensure that the Group remains competitive in the business.

## POLICY ON QUALITY

In keeping with its *Mark of Excellence* branding, the Group has adopted the following policies:

- all projects and services undertaken will be implemented in a manner that they exceed customers' expectations;
- the standard of quality of the final products and services will be enhanced through continuous review and advancement of construction processes and quality assurance system; and
- the competency of our qualified and dedicated workers at all levels will be nurtured and enhanced to serve our customers better.

## IJM QUALITY SYSTEM ASSESSMENT STANDARD (IQSAS)

The Group has developed a Quality Management System that was certified to the ISO 9002:1994 in 1996. Since then, the Group has successfully renewed its certification annually.

In addition, the Group has developed a standard known as IJM Quality System Assessment Standard (IQSAS) to further improve the quality standards of its completed buildings. IQSAS is a self-regulated assessment system of procedures and testing methods in which standards are set out for the various quality and safety aspects of building construction.



## CONTINUOUS QUALITY IMPROVEMENT

The Group recognises the need to further maintain its quality standards. With its operations now expanded to countries such as India and the Middle East, addressing quality issues and embracing its workforce with quality culture becomes more challenging. The quality management system in its India operations had undergone evaluation with a view to implementing IQSAS in all its projects there.

Quality improvement continues to be accorded high priority, as evident by the following continuous steps:

- enhancement of the Group's Quality Manual and Procedure Manual;
- knowledge-sharing concept via Quality System Department's iPortal;
- incorporation of the Quality Policies and Procedures in the Project Manager Handbook;
- IQSAS civil work assessment carried out for all infrastructure projects; and
- regular staff development and training.

Not resting on its laurels, the Group continues to take steps to improve the IQSAS and its quality practices. Its quality cycle continues to be charted by assessing the results and recommendations from:

- the Quality Management Committee;
- internal quality audits; and
- annual survey.

## ISO CERTIFICATION

The Group intends to achieve compliance with ISO 9000 in all its business operations. To date, a total of eleven companies under its belt have already achieved certification since 1996, with Jurutama Sdn Bhd being the latest addition to the family.

1. IJM Corporation Berhad
2. IJM Construction Sdn Bhd
3. Prebore Piling & Engineering Sdn Bhd
4. IJM Building Systems Sdn Bhd
5. Strong Mixed Concrete Sdn Bhd
6. IJM Properties Sdn Bhd
7. IJM (India) Infrastructure Ltd
8. Industrial Concrete Products Berhad
9. Expedient Resources Sdn Bhd
10. Durabon Sdn Bhd
11. Jurutama Sdn Bhd

*The Group accords high importance on quality finishings*



# Statement on Health, Safety & Environment



*The Group promotes a safety culture in its operations through practices such as barricading, proper hoardings with signages and fire fighting training*

The Group continually strives to improve its environmental, safety and health practices with the objectives of achieving long-term sustainable development, healthy work environment and preventing accidents and occupational illnesses. Its motto, “Health, Safety and Environment Is Everyone’s Responsibility” has long been the guiding principle to inculcate a high level of occupational safety and health practices and to permeate environmental awareness into its work culture.

## HEALTH & SAFETY

A high importance is placed on the safety of the Group’s systems and processes in all aspects of its business. These systems and processes were tested and certified by SIRIM in November 2000, and the Occupational Health and Safety Assessment Series (OHSAS) 18001:1999 certification was issued to IJM Corporation Berhad and IJM Construction Sdn Bhd - the first Malaysian companies to be conferred this international certification in the construction industry. The companies have successfully maintained this certification since.

The Group has in place a structured and comprehensive safety system to:

- review the suitability of safety policies, objectives and targets for continual improvement;
- review the safety performance and results of safety system audits; and
- recommend corrective and preventive actions.

To achieve the Group’s objectives of prevention of injuries and occupational health hazards, and the assurance of public safety at all locations of its operations, a policy has been formulated aiming at:

- compliance with all applicable Health, Safety and Environmental (HSE) legislation and other HSE requirements;
- familiarisation of all employees and stakeholders with training, information and facilities;
- increased awareness and accountability at all levels of the organisation; and
- regular monitoring and review of its set objectives.

The Group's Health, Safety and Environment Department (HSED) has formulated an Occupational Health and Safety Manual and Procedure to provide guidance to all its employees. The HSED has also carried out a total of 35 safety audits and 25 surprise inspections covering existing active projects at different stages of construction. Corrective and preventive actions, where necessary, were recommended to rectify weaknesses and deficiencies.

### **Safety and Health Management System**

Various committees and systems were set up to enhance safety and health aspects in the working environment. They include:

1. **Health, Safety and Environment Management Committee (HSEMC)** - this committee meets periodically to review the operations of the safety and health management systems;
2. **Health, Safety and Environment Committee (HSEC)** - to assist the development of safety and health rules, carry out inspections and review the safety and health policies at the work place;
3. **IJM Health and Safety Assessment System (IHSAS)** - a system developed based on the OHSAS 18001 standards to establish the standards for various safety aspects of construction works undertaken;
4. **The Project Safety and Health Plan** - a plan designed to ensure that, prior to the execution of construction works, all operations undertaken adhere fully to the Occupational Safety and Health Act, 1994; and
5. **Performance Indicator** - this reactive monitoring system is carried out through the compilation and analysis of a number of key performance indicators.

### **Lost Time Injury (LTI)**

For 2005, 20 of the Group's on-going projects achieved their respective target of man-hours without Lost Time Injury (LTI), with projects such as Rawang-Ipoh Double Track (Building Station), Impiana @ KLCC, Alam Warisan (Package 3) and KLCC Luxury Condominium exceeding the 1-million man-hours mark. Not resting on our laurels, continuous efforts by the Group will be stressed as we endeavour in our pursuit of harnessing a better, safer and conducive work environment, in line with our "zero accident" policy, for all our staff.

### **Non-conformity Report (NCR)**

In addition to annual inspections, several project sites under subsidiaries IJM Construction Sdn Bhd and Prebore Piling & Engineering Sdn Bhd were also subjected to the stringent surveillance audit by SIRIM. Another subsidiary, Torsco Sdn Bhd was issued with minor NCRs, but overall, there was major improvement as evident by the zero NCR issued to IJM Construction Sdn Bhd in 2005 compared to five that were issued in 2003.

### **Continuous Training and Awareness**

During the year, various training and awareness programmes were held to promote a proactive safety culture. These include the Introduction To Occupational Health & Safety Assessment Series (OHSAS) 18001, Fire Drill, Accident Investigation, First Aid & CPR Training, Safe Working Instruction, Emergency Response Preparedness, Plant and Machinery Safety, Noise Hazards and Scaffolding Training (in collaboration with Akademi Binaan Malaysia), amongst others.

A Safety & Health Month Campaign 2005 was also held with safety and health exhibitions from BOMBA, the National Institute of Occupational Safety and Health (NIOSH) and the Department of Occupational Safety and Health (DOSH). A Safety Guide booklet was also launched during this campaign.

## **ENVIRONMENT**

Sustainability of the business is about ensuring long-term economic success whilst caring for the environment. The Group constantly monitor areas of environmental concern with the view of taking pre-emptive measures to prevent irreversible damage to the environment.

The Group's commitment towards protecting and safeguarding the environment were rewarded with the certification of IJM Corporation Berhad, IJM Construction Sdn Bhd and Prebore Piling & Engineering Sdn Bhd to the EMS MS ISO 14001:2004 by SIRIM QAS International Sdn Bhd.



# Statement on Health, Safety & Environment (cont'd)

## Best Environmental Practices

Sensibly designed environmental management systems are a pre-requisite for efficient environmental control. Recognising this, all aspects of environmental monitoring are carefully planned and implemented in all the Group's activities.

## Waste Management

We have in place an effective solid waste management whereby regular and effective method of disposing all debris from our construction and property development sites are carried out. Our Plantations Division has set a goal of "zero waste" for its palm oil mills. Palm oil mill effluent (POME) is applied to the land principally as irrigation after going through the normal process of treatment. As a result of this practice, the pollution load on the land where the POME is applied is minimised.

The biocomposting plant in Sabang converts the shredded fibres from empty fruit bunches (EFB) and POME into semi-decomposed organic compost for use in the Sugut estates. Bunch ash derived from incinerating EFB in Desa Talisai palm oil mill is recycled back to the estates and helps to replace inorganic potash fertilisers.

## Flood Control

Our construction and property development divisions carry out controlled earthworks to prevent flooding of surrounding low-lying areas. In addition, detention ponds are built to regulate flow of rain water to avoid flooding.

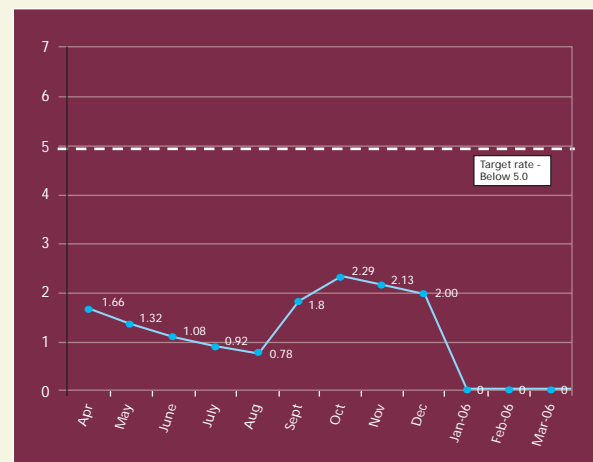
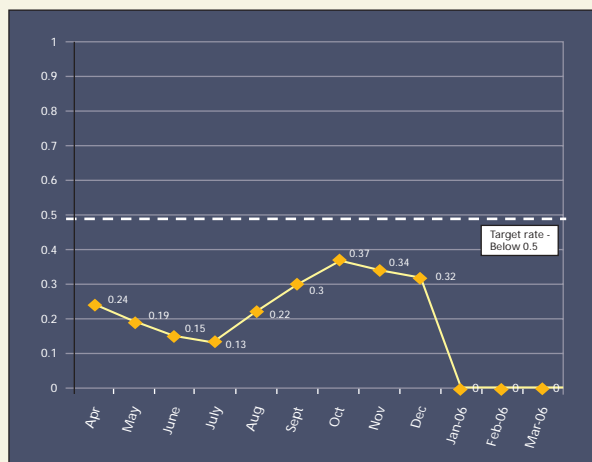
## Erosion Control

To help reduce soil erosion, phased development is being carried out in our development activities as this minimises the exposure of bare soil to rain. This method also allows us to implement measures such as turfing of hill slopes to ensure they are kept to an acceptable gradient to prevent slope failure.

Our quarrying operations also adopted turfing to cut hillsides to prevent landslides and other adverse effects to the environment. Other preservation measures include garden landscaping and installation of fish pond and waterfall systems to create an aesthetic environment.

In our plantations, legume cover crops including *Mucuna bracteata* are established immediately after land clearing in all the new plantation developments and replants to minimise soil loss. The cover crops provide other benefits including conversion of atmospheric nitrogen into a form usable by plants, addition of organic matter to the soil, improvement in both the soil physical and chemical properties as well as help to lower soil temperature and conserve moisture.

**Frequency Rate (left) and Severity Rate (right), factored on Lost Time Injury (LTI) cases continue to show improvement**



### Air Quality Control

Open burning is prohibited at all our construction and property development sites. Regular sprinkling of water is also carried out, whilst sprinkler systems are installed on our crushers, conveyors and along quarry access to reduce dust pollution.

Our plantations adopt a zero-burn policy for all its replantings. This policy is written into land clearing contracts where the services of third party contractors are employed. In new plantation developments, zero-burn is the preferred policy, but where the situation warrants it, controlled burning is undertaken with prior approval from the relevant authorities.

Carbon sequestration plays an important role in reducing carbon dioxide gas in the atmosphere. The oil palm trees within the Plantations Division had sequestered over half a million metric tonnes of carbon last year, hence contributing to the removal of greenhouse gas from the atmosphere.

### Noise Level Control

Proper piling methods are adopted during foundation works at our construction sites to mitigate noise pollution. In our manufacturing business, the Division adopted noise reduction measures such as the use of rubberised mesh in its screening operations and insulated noise protection materials in control rooms at our quarries. Independent consultants are also engaged to review the level of permissible noise whilst staff are required to wear noise protective equipments, where necessary.

### Water Quality Control

We build proper water discharge drainage systems at all locations of our activities. Sedimentation ponds, silt traps and bunkers are built to trap the silt to prevent wastes being discharged into rivers during heavy rainfalls.

### Integrated Pest Management

Activities involving collection, breeding and multiplication of predator insects are carried out in an insectarium in Quality, Training & Research Centre (QTRC) for eventual release in the estates. In addition to the diverse natural vegetation already being preserved, specific beneficial plants acting as effective alternative food source for the predators of pests are being propagated and planted throughout the estates. Last year, special focus was directed to raise *Antigonon* species throughout the Plantations Division estates. In the control of rhinoceros beetle, *Oryctes rhinoceros*, both pheromone and biopesticides such as *Metarrhizium* are being used. The use of barn owls for biological control of rats in Sandakan is being explored with other interested members of the oil palm industry.

*IJM's best environment practices recognised with the EMS ISO 14001 certification*

*Continuous silt trap monitoring at our Cahaya Alam project*



# Corporate Social Responsibility



*Donations to charitable organisations marked the finale of the IJM Golf Challenge*



*Taking a keen interest in our environment*



*Sports development at grass roots level*

IJM's commitment to deliver quality products and services extends to its constant dedication to adopt and implement best practices in its business operations. Mindful of the impact its operations have on society, the Group seeks to ensure that the interests of its key stakeholders; from shareholders, investors, customers and employees to the larger community; are well looked after. With sustainable development in mind, the Group seeks to be at the forefront of socially responsible practices and hopes to make a difference in the society it operates in.

The Group's corporate culture is structured in such a way that it is mutually beneficial. By integrating social values within its business decision-making, IJM aims to achieve positive and sustainable outcome for its business, environment and the larger community.

## BUSINESS ETHICS

IJM Group has been a practitioner of the 'conscionable ethics' concept in our business practices since its founding in 1983. The Group devised and adopts a strong business policy that is practical, simple and beneficial. This commitment towards excellent business ethics has benefited stakeholders in many ways. These include timely delivery of quality products and services, achievement of accident-free operations, elimination of occupational health hazards, and conservation and preservation of the environment. The Group also has in place an effective and efficient structure, a robust business process as well as an internationalisation strategy to maximise returns to stakeholders.

In all its policies, the Group does not discriminate against any race, gender, age or minorities. These policies serve as the guiding principles to inculcate a working culture that places high importance on professionalism, integrity and good governance.



The Group's policies and procedures on the various best practices are widely published through the Group's website and Information Portal, periodic newsletters and annual reports. Policy statements are also widely displayed in various locations within the organisation. To further enhance good governance practices, the Group has established a whistle-blowing procedure whereby staff can report cases of fraud or irregularities within the Group to the Internal Audit Department, the Chief Executive Officer & Managing Director or the Company Secretary. A suggestion box is also made available for comments and feedback from staff.

More information on other best management practices and business ethics of the Group are provided in other sections of this report.

## SAFETY FIRST

The Group believes that safety is paramount in all aspects of its operations. Concerted efforts are continually made to create awareness on the collective responsibility among its employees for the prevention of injuries and occupational health hazards and the assurance of public safety when carrying out its business activities.

Please refer to *Statement on Health, Safety and Environment* for more details.

## CUSTOMER SATISFACTION

The Group's objective to continuously seek superior quality standards has ensured that its products and services gain strong recognition from customers and enable it to continue remaining competitive in the business. There were endorsements from the Ministry of Works, rating the Group among the top contractors in Malaysia, and also from the many commendations it received for building high quality low-cost housing.

The Group's quality practices are covered extensively in its *Statement on Quality*.

## INVESTOR RELATIONS

In line with good governance practices, IJM continues to place great importance on accountability and transparency in the disclosure of information to our stakeholders. The Group has established Investor Relations (IR) programmes that give stakeholders and investors invaluable insight into our business dealings and provide an interactive dialogue in the way we conduct our businesses. Visitors to the Group's website are also encouraged to submit their feedback so that its services to all stakeholders could be further enhanced.

More details of the Group's Investor Relations can be found in the *Corporate Governance Statement*.

## CARING FOR OUR PEOPLE

Our people are our most valuable asset. In recognition of this, the Group places utmost importance in ensuring our people are equipped with the necessary skills and knowledge to keep us at the forefront of our businesses. Whilst we strive to create more wealth for our shareholders, we also seek to balance our commitment to our people. Bearing this in mind, we have organised several activities throughout the year, ranging from trainings to social gatherings as well as recreational activities.

*Emphasis on training and development aids in charting and enhancing our staff's competencies and knowledge*



# Corporate Social Responsibility (cont'd)

## Training & Development

As a learning-based organisation, we firmly believe in continuous training and development. Various programmes were held throughout the year to focus on upgrading the competencies of our people in order to unleash their hidden potential while creating a talent pool for succession planning. During the year, a total of RM561,785 was invested on structured trainings, workshops and seminars covering areas on management, technical, communication, administrative and other soft-skills. In total, 19,604 man-hours of training were provided to staff of all levels.

Some of the programmes arranged by the Group include:

- ▶ **Technical -**
  - Geotechnical Engineering 2005
  - FRS Improvements Project
  - Quantity Survey
  - Accidents Investigation
  - Quality
- ▶ **Management -**
  - Corporate Sustainability Reporting: A Practical Approach
  - Strategic And Operational Risk Management
- ▶ **Communication -**
  - IJM Toastmasters Club
  - Communicative In Writing
- ▶ **Administrative -**
  - Customer Service & Telephone Techniques
  - Training Of Storekeepers
- ▶ **Orientation and Induction for new staff**
- ▶ **Plantations Best Management Practices**

A teambuilding workshop themed, "Making a Difference" was organised to instil a belief in our people on the concept of a 'shared destiny'. It advocated a management style that combines a pro-active, hands-on approach at all levels to maintain high standards in our work performance.

## Appreciating Loyalty

The Group appreciates the loyalty of employees who have attained 20 years service. Long Service Awards are presented during the Group's Annual Dinner and Dance and special retirement awards are also handed out to retiring staff who have served the Company for at least 15 years.

## More Than Just Work

The Kelab Sukan IJM (KSIJM) was established by the Group to organise various social, sports and welfare activities for our people.

*Beyond work, the Group promotes a quality lifestyle for its staff through self improvement workshops, relaxing holidays and healthy sporting activities*





*We continue to lend our support through community programmes such as blood donation drives, public education activities and support of educational pursuits in rural communities*

### Social Gatherings

We are committed to promote staff interaction by regularly bringing everyone in the IJM family together. Through this commitment, efforts are made to strengthen the bonds of friendship and camaraderie whilst instilling a sense of belonging among staff.

The Annual Dinner and Dance and a Family Day outing were among the various events and gatherings held. Others include special dinner celebrations in conjunction with major Malaysian festivals and movie screenings where staff and their family members enjoyed, such as 'Harry Potter: The Goblet of Fire' and 'The Chronicles of Narnia'.

Short vacations were also arranged where staff and family members enjoyed getaways to popular holiday destinations like Langkawi and Redang to relax and unwind.

A grooming class on the latest fashion tips and style trends was also conducted and this proved to be a hit among our people.

### Healthy Living

We believe a healthy mind starts with a healthy body. KSIJM has been actively promoting a healthy lifestyle through various exercises.

Kompleks Sukan IJM-COBRA continues to be the preferred venue where staff can enjoy sporting and fitness activities such as badminton, squash, pilates and jazzercise. In-house sports competitions, like futsal, bowling, darts and carrom, were also organised to promote healthy living and staff interaction.

Health talks and health screening test sessions are conducted regularly to educate our people of its importance.

## COMMUNITY SERVICE

As a responsible corporate citizen, the Group continues to lend its hand to social welfare works, scholarships and sports development through various forms.

At staff level, we encourage our people to play a role in community work by taking part in activities like blood donation drives, such as the one held on 27 September 2005 at the Head Office. It was indeed encouraging to see so many of them doing their bit as donors despite having to sacrifice a portion of their working time to do so.

At the Group level, we share our wealth through philanthropic works contributing a total of RM2.5 million to various charitable organisations during the year. The recipients included Hospis Malaysia, Majlis Kebangsaan Bagi Orang Buta Malaysia, Women's Aid Organisation, Malaysian Care, and many others.

We continue to support the annual Bursa Malaysia Rat Race in its efforts to raise funds for charitable causes through the participation of our team of runners and our colourful cheerleaders.



## Corporate Social Responsibility (cont'd)

In line with our Prime Minister's mission to produce a generation of knowledgeable and bright young Malaysians, we provide financial assistance to deserving and meritorious undergraduates. The IJM Scholarship Awards are granted annually in the fields of Accounting, Civil Engineering, Mechanical Engineering, Housing, Building & Planning, and Quantity Surveying. This will also provide us with a steady stream of high calibre professionals to sustain and reinvigorate our long-term growth.

The Group plays a role in developing the nation's sports level. In 2005/06, we sponsored sporting events such as the 36th HSBC-COBRA Invitational Rugby 10s 2005, IJM Corporate Golf Challenge Malaysia 2006, 5th Borneo Cobra International Rugby 10s Tournament 2005, the 10th IJM/Adidas Invitational Football Tournament 2005 and the IJMP Futsal Endurance 2005.

Annual contributions are channelled toward junior sports development in Malaysia through "SportExcel", a foundation for Malaysian sporting excellence. To further promote rugby development at grassroots level, especially in Sabah, the Academy for Rugby Excellence was set up in a joint-development programme with the state's rugby union and education department. A similar programme in collaboration with COBRA has been in progress in West Malaysia, particularly in the development of teachers as coaches.



IJM Scholarship Awards are granted annually

### KEEPING IT GREEN

The Group is fully committed towards its social responsibility on the environmental issues in the conduct of its business. It combines its social responsibility with its business objectives for long-term sustainable development. For 2005/06, our commitment and efforts towards the environment finally materialised when IJM Corporation Berhad, IJM Construction Sdn Bhd and Prebore Piling & Engineering Sdn Bhd were accorded the ISO 14001:2004 certification. The Environmental Management System implemented is based on the ISO 14001 standards.

In line with our motto, "Health, Safety & Environment is Everyone's Responsibility", 2005/06 saw the streamlining of the Health, Safety & Environment Department (HSED) to govern occupational safety, health and environmental practices within the Group.

The Health, Safety and Environmental Management System was developed by the HSED with the help of external experts. This system addresses emerging environmental issues and propose plans towards environmental protection and mitigation. To ensure the success of the system, frequent HSE system audits, HSED inspections along with the periodic management reviews are carried out. We continue to equip our people with the necessary skills and knowledge via structured trainings to inculcate environmental awareness in our work culture.

There is an extensive coverage of the Group's best environmental practices in the *Statement on Health, Safety and Environment*.

### RESEARCH & DEVELOPMENT, AND INNOVATION

IJM recognises that it operates in a competitive business environment. Thus IJM has placed its focus on quality, and innovative products and services, which are produced at lower costs and greater speed to face the challenges of intense competition.

Our business culture of producing quality, innovative products and services will continue to be our foundation for growth. We will continue to allocate our resources in a synergistic manner to eliminate duplication, to benchmark our processes against the highest international standards and to embrace state-of-the-art technology to stay ahead. Dedicated investment in research and development (R&D),

and developing innovative approaches will be the key to our sustainable growth in businesses. We will move forward with a focus to shape and assure our future by practising the art of constant reengineering and invention, and producing the highest quality products through investment in R&D.

### Research & Development

The Group's subsidiary, Industrial Concrete Products Berhad, carries out intensive R&D in its factory located in Klang, Selangor to maintain its dominant leading position in producing Pretensioned Spun Concrete (PSC) Piles. Its R&D centre comes equipped with a 2000-ton compression jack that enables analysis of axial loading test of PSC piles to be carried out. Some notable achievements included clinching a place in the Malaysian Book of Records for the design and development of the longest precast concrete pile locally. Recently, we managed to break another record when we cast the longest pile in our history - a massive diameter 1000mm pile by 52 metres in length. For 2005/06, a total of RM106,663 was expended on R&D activities. R&D will continue to take place in pushing the performance boundaries for materials such as concrete and epoxy materials along with the possibilities of using quarry dust as an alternative material in increasing the strength of concrete for the production of piles.

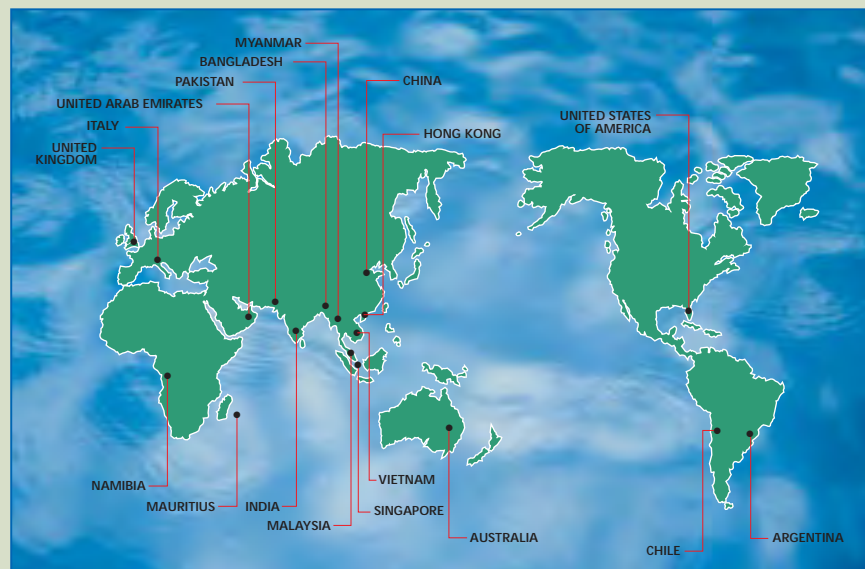
The Plantations Division, through IJM Plantations Berhad, is committed to undertake an R&D programme that will further enhance yield productivity and cost efficiency with due care for the environment to ensure a sustainable business as it strives to maintain its business edge well into the future. The Quality, Training and Research Centre (QTRC) located in Sijas estate, Sabah continues to play a pivotal role in spearheading the R&D pursuits of the Plantations Division. The main R&D thrusts include oil palm breeding, selection and commercial production of oil palm planting material. QTRC's continuing research is also targeted on the use of biological controls to reduce the use of chemical pesticide.

### Innovative Products

Insitu Envirotech Pte Ltd, a subsidiary of IJM Construction Sdn Bhd specialising in trenchless ("No-Dig") pipelines rehabilitation technology with minimum excavation, employs innovative pipeline systems that are environmentally-friendly and cost-effective. These also reduce costs as they require low maintenance. Also, the performance of our pipes has proven to exceed the conventional lifespan of 30 years.

Another innovative product was produced through a joint-venture undertaken by IJM Building Systems Sdn Bhd, i.e. the first lightweight oil palm fibre reinforced cement composite panels. This was accredited by the Malaysian Book of Records Award as the first such product in Malaysia.

## OUR FOOTPRINTS IN THE WORLD



# Employees & Productivity

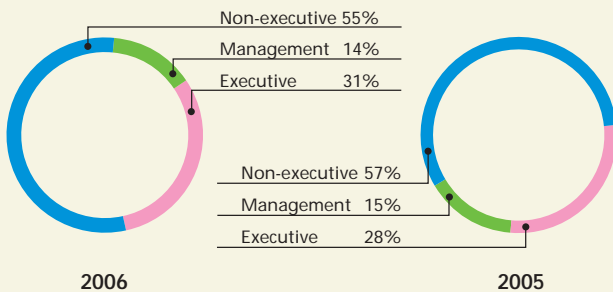
	2006 RM'000	2005# RM'000
<b>(a) Employees as at 31 March:-</b>		
Employee by Classification		
- Management	254	225
- Executive	574	437
- Non-executive	995	881
	1,823	1,543
Employee by Ethnic Composition		
- Bumiputra	415	388
- Chinese	678	656
- Indian	191	194
- Foreigners	539	305
	1,823	1,543
<b>(b) Productivity:- (N1)</b>		
Revenue - per employee (in RM'000)	990	1,433
- per RM employment cost (in RM)	20.36	17.61
PBT - per employee (in RM'000)	154	226
- per RM employment cost (in RM)	3.17	2.77
Value added - per employee (in RM'000)	263	381
- per RM employment cost (in RM)	5.41	4.68

(N1) Based on average number of employees during the year.

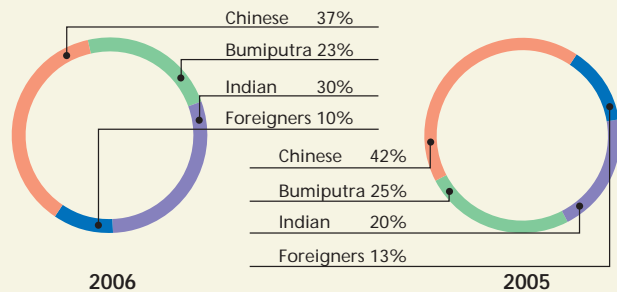
# Represents 15 months ended 31 March 2005.

Note: Productivity per employee has dropped in 2006 mainly due to recruitment of foreign employees for Indian tollway project towards the financial year-end.

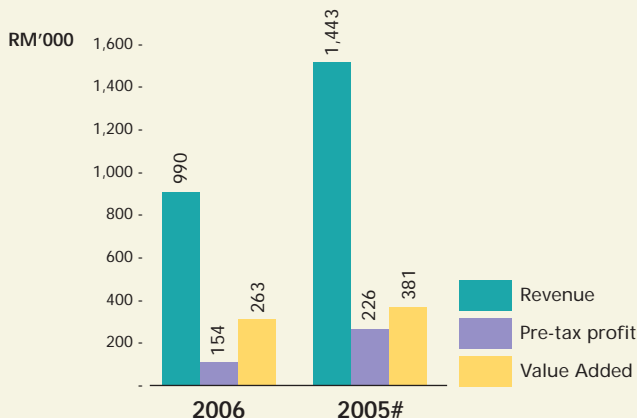
## Employees by Classification



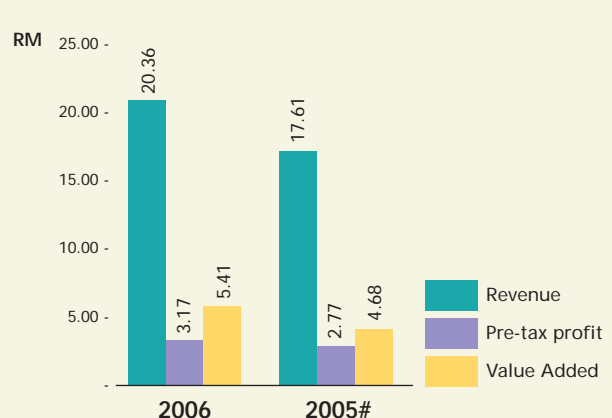
## Employees by Ethnic Composition



## Productivity - Per Employee



## Productivity - Per RM Employment Cost



# Impact of FRS on Financial Statements

## 1. Changes in Accounting Policies

In order to bring Malaysian accounting standards into convergence with International Financial Reporting Standards, the Malaysian Accounting Standards Board has approved 21 new and revised Financial Reporting Standards (FRSs), of which 18 standards are applicable for the Group's financial year commencing 1 April 2006.

## 2. Description of Impact

Based on management's preliminary assessment, a number of the Group's accounting policies will be changed. The principal effects of the changes in accounting policies resulting from the adoption of the new and revised FRSs are as follows:

### (a) FRS 3: Business Combinations, FRS 136: Impairment of Assets and FRS 138: Intangible Assets

The adoption of these new FRSs will result in the Group ceasing annual goodwill amortisation. Goodwill will be carried at cost less accumulated impairment losses and will be tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired. Any identified impairment loss must be recognised in profit or loss immediately and subsequent reversal will not be allowed.

Any excess of the Group's interest in the net fair value of acquirees' identifiable assets, liabilities and contingent liabilities over the cost of acquisition (previously referred to as "negative goodwill"), after reassessment, will be recognised immediately in profit or loss.

In accordance with FRS 3, the negative goodwill on consolidation as at 1 April 2006 of RM7,699,000 will be derecognized with a corresponding increase in retained profits as disclosed in Note 3.

### (b) FRS 101: Presentation of Financial Statements

With the adoption of the revised FRS 101, minority interest will be presented within total equity in the consolidated balance sheet and as an allocation from net profit for the period in the consolidated income statement. The movement of the minority interest will be presented in the consolidated statement of changes in equity.

### (c) FRS 140: Investment Property

With the adoption of the new FRS 140, properties held for rental or capital appreciation will be reclassified to investment properties.

## 3. Quantification of Impact for year ended 31 March 2006

Based on management's preliminary assessment, the following amounts will be restated due to the adoption of the new and revised FRSs:

### Balance Sheet as at 31 March 2006

	Audited RM'000	Adjustment FRS 3 & FRS 140 RM'000	(Unaudited) Restated RM'000
Property, plant and equipment	466,045	(11,418)	454,627
Intangible assets	61,285	7,699	68,984
Investment properties	–	11,418	11,418
Retained profits	1,071,916	7,699	1,079,615

### Income Statement for financial year ended 31 March 2006

	Audited RM'000	Adjustment FRS 101 RM'000	(Unaudited) Restated RM'000
Share of results of associates	35,962	(11,727)	24,235
Share of results of jointly controlled entities	7,339	(979)	6,360
Profit from ordinary activities before taxation	259,774	(12,706)	247,068
Taxation	76,429	(12,706)	63,723
Profit from ordinary activities after taxation	183,345	–	183,345