

The Malaysian Code on Corporate Governance (the Code) defines the principles and best practices on structure and processes that companies may use in their operations towards achieving the optimal governance framework. The Board of Directors continues to endeavour to comply with all the key principles and practices of the Code. The following statement outlines the corporate governance practices that were in place throughout the year ended 31 December 2003.

THE BOARD OF DIRECTORS

- **Board responsibilities**

The Board is overall responsible for the strategic direction and business performance of the Group by specifically focusing on issues relating to strategic plan, business conduct, risk management and internal control. The Board meets regularly to review the Group's corporate strategy, business operation, financial results and also to decide on matters significant to the Group's business and finances including approval of annual operating budget, major capital expenditure, material acquisition and disposal of assets.

- **Board composition and Balance**

The Board currently consists of eight members; comprising three Independent Non-Executive Directors and five Executive Directors. Collectively the Board has a mix of industry-specific knowledge and technical skills which are necessary for the leadership and management of the Group. There is balance in the Board represented by the presence of three Independent Directors who ensure that strategies proposed by the Executive Management are fully examined and the long term interests of minority shareholders are well taken into consideration. The profile of each of the members of the Board can be found on pages 6 to 8. of this Annual Report.

- **Board meeting and information**

Five board meetings were held in the financial year ended 31 December 2003 and the attendance record of each director is as follows:

Directors	Number of Meeting Attended
Tun Dato' Seri Abdul Hamid bin Omar (appointed on 26.02.2003)	4 / 4
Dato' Yap Sing Hock	4 / 5
Dato' Yaacob Bin Md Amin	5 / 5
Mr Khow Eng Guan	5 / 5
Mr Cheong Marn Seng	5 / 5
Mr Lim Meng Hua	5 / 5
Mr Yeoh Chong Keat	5 / 5
Ir. Aw Tee Wan (appointed on 26.02.2003)	4 / 4

During the year, the Board resolved and approved the Group's matters through board meetings or Directors' circular resolutions. During the Board meetings, the Board considered and deliberated on the financial statements and results of the Group, the business performance of the Group and other strategic issues that affected the Group's businesses. The Directors also visited the Group's project sites and properties to have a better understanding of the working condition of the Group's business operations so that they were able to contribute more effectively during board deliberations.

The Board had been supplied with full and timely information to enable it to discharge its responsibilities. All notices of meetings together with the agenda and discussion papers were served on the Directors in advance of the meeting dates. Furthermore, the Board has access to advice and services of the Company Secretary who is responsible for ensuring that board meeting procedures are followed and that applicable rules and regulations are complied with.

- **Board appointment and re-election**

In accordance with the Company's Articles of Association, all Directors appointed by the Board are subject to election by the shareholders at the Annual General Meeting following their appointment.. At least one third of the Directors are required to retire from office by rotation annually and shall be eligible for re-election at each Annual General Meeting.

- **Board Committee**

The Board has delegated specific responsibilities to five subcommittees, namely Audit, Executive, Nomination, Remuneration and Risk Management Committees. The details of each of the said committees are set out below:-

- **Audit Committee**

The Terms of Reference of the Audit Committee, its members and its activities during the financial year, details of attendance of each member and the number of meetings held are set out on page 17 to 20 of this Annual Report.

- **Executive Committee**

The Executive Committee was established on 8 March 2002. The members of the Executive Committee comprise all the Executive Directors, namely:-

- Dato' Yap Sing Hock
- Mr Khow Eng Guan
- Mr Cheong Marn Seng, Allen
- Mr Lim Meng Hua
- Ir. Aw Tee Wan

The Executive Committee is responsible for, inter-alia, the following duties and responsibilities:

- (i) To review and monitor the performance of all operating units and subsidiaries of the Company;
- (ii) As approving authority for all capital expenditures and contractual commitments exceeding RM50,000 undertaken by the Group;
- (iii) To review and prescribe policies in relation to the day to day operations of the Group.

• **Nomination Committee**

The Nomination Committee was set up on 26 February 2002 to promote a formal and transparent procedure for appointment to the Board. The Nomination Committee comprises mainly of non-executive directors as listed below: -

- Mr Yeoh Chong Keat - Chairman/ Independent Non-Executive Director
- Dato' Yaacob bin Md Amin - Member/ Independent Non-Executive Director
- Dato' Yap Sing Hock - Member / Non-Independent Executive Director

The Nomination Committee serves to facilitate appointment of new directors as and when necessary and will give due consideration to the mix of experience and skills required for an effective Board.

• **Remuneration Committee**

The Remuneration Committee was established on 26 February 2002 and comprises mainly of Non-Executive Directors as listed below: -

- Mr Yeoh Chong Keat - Chairman / Independent Non-Executive Director
- Dato' Yaacob bin Md Amin - Member / Independent Non-Executive Director
- Dato' Yap Sing Hock - Member / Non-Independent Executive Director

The Remuneration Committee's primary responsibility is to review and recommend to the Board all remuneration of Directors. Directors do not participate in decisions on their own remuneration.

• **Risk Management Committee**

The Board established a Risk Management Committee on 25 November 2002. The Risk Management Committee consists of the following members: -

- Dato' Yap Sing Hock - Member / Non-Independent Executive Director
- Dato' Yaacob bin Md Amin - Member / Independent Non-Executive Director
- Mr Yeoh Chong Keat - Member / Independent Non-Executive Director

The Risk Management Committee assists the Board to oversee the management of risk issues and review the efficacy of the internal controls of the Group.

DIRECTORS' REMUNERATION

Analysis of the Directors' remuneration are set out on page 68 of this Annual Report.

RELATIONS WITH SHAREHOLDERS AND INVESTORS

The Board acknowledges the need for shareholders to be informed of all material business matters affecting the Company. Announcements and 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.

The Annual General Meeting (AGM) is the principal forum for dialogue with individual shareholders and investors. At the Company's AGM, shareholders are encouraged to ask questions and express their views about the Company's business and financial issues.

ACCOUNTABILITY AND AUDIT

- **Financial reporting**

The Board aims to provide a balanced and understandable assessment of the Company's financial position and prospects at the end of the financial year. The Group publishes full financial statements annually and quarterly results announcements as required by the Listing Requirements. The Audit Committee assists the Board by reviewing the disclosure information to ensure accuracy and adequacy.

- **Internal Audit**

The Group has established a Control and Development Department to assist the Board in obtaining the assurance it requires regarding the effectiveness of the system of internal control. The Statement of Internal Control appended on page 21 to 22 of this Annual Report provides an overview of the Company's approach in maintaining a sound system of internal control to safeguard shareholders' investment and the Group's assets.

- **Relationship with the Auditors**

The Company has always maintained a transparent and appropriate relationship with its auditors in seeking their professional advice and ensuring compliance with accounting standards in Malaysia. The role of the Audit Committee in relation to the auditors is detailed in the Audit Committee Report set out on pages 17 to 20 of this Annual Report.

THE AUDIT COMMITTEE COMPRISES THE FOLLOWING DIRECTORS: -

DATO' YAACOB BIN MD AMIN

(Chairman and Independent Non-Executive Director)

MR YEOH CHONG KEAT

(Independent Non-Executive Director)

MR KHOW ENG GUAN

(Executive Director)

TERMS OF REFERENCE

COMPOSITION

The Committee shall be appointed by the Board from amongst its Directors which fulfils the following requirements: -

- (a) the Audit Committee must be composed of no fewer than 3 members;
- (b) a majority of the Audit Committee must be Independent Directors; and
- (c) 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 3 years' working experience and: -
 - (aa) he must have passed the examinations specified in Part I of the 1st Schedule of the Accountants Act 1967; or
 - (bb) 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) fulfils such other requirements as prescribed by the Bursa Malaysia Securities Berhad.
- (d) no alternate director is appointed as a member of the Audit Committee.

In the event of any vacancy in the Audit Committee resulting in the non-compliance of the above paragraph, the Company must fill the vacancy within 3 months.

The members of the Audit Committee shall select a Chairman from among themselves who shall be an Independent Director.

The term of office and performance of the Audit Committee and each of its members shall be reviewed by the Board once every 3 years to determine whether the Audit Committee and members have carried out their duties in accordance with their terms of reference.

RIGHTS OF THE AUDIT COMMITTEE

The Company must ensure that wherever necessary and reasonable for the performance of its duties, the Audit Committee shall, in accordance with a procedure to be determined by the Board of Directors and at the cost of the Company: -

- (a) have authority to investigate any matter within its terms of reference;
- (b) have the resources which are required to perform its duties;
- (c) have full and unrestricted access to any information pertaining to the Company;
- (d) have direct communication channels with the external auditors and person(s) carrying out the internal audit function or activity (if any);
- (e) be able to obtain independent professional or other advice; and
- (f) be able to convene meetings with the external auditors, excluding the attendance of the executive members of the committee, whenever deemed necessary.

REPORTING OF BREACHES TO THE BURSA MALAYSIA SECURITIES BERHAD

Where the Audit Committee is of the view that a matter reported by it to the Board of Directors has not been satisfactorily resolved resulting in a breach of these requirements, the Audit Committee must promptly report such matter to the Bursa Malaysia Securities Berhad.

FUNCTIONS

The functions of the Audit Committee shall be: -

- (a) To review
 - (i) with the external auditors, the audit plan;
 - (ii) with the external auditors, his evaluation of the system of internal accounting controls;
 - (iii) with the external auditors, his audit report;

- (iv) the assistance given by the Company's officers to the auditors;
 - (v) the scope and results of the internal audit procedures;
 - (vi) the internal audit programme, processes, the results of the internal audit programme, processes or investigation undertaken and whether or not appropriate action is taken on the recommendations of the internal audit function;
 - (vii) the quarterly results and year end Financial Statements, prior to the approval by the Board of Directors, focusing particularly on: -
 - changes in or implementation of major accounting policy changes;
 - significant and unusual events; and
 - compliance with accounting standards and other legal requirements.
 - (viii) any related party transaction and conflict of interest situation that may arise within the Company or Group including any transaction, procedure or course of conduct that raises questions of management integrity;
 - (ix) any letter of resignation from the external auditors of the Company; and
 - (x) whether there is reason (supported by grounds) to believe that the Company's external auditor is not suitable for re-appointment; and
- (b) To consider the nomination of a person or persons as external auditors together with such other functions as may be agreed to by the Audit Committee and the Board of Directors.

MEETINGS

A representative of the external auditors shall normally attend meetings. Meetings shall be held no fewer than 4 times a year and the external auditors may request a meeting if they consider that one is necessary.

In order to form a quorum in respect of a meeting of the Audit Committee, the majority of members present must be Independent Directors.

The Company Secretary shall be the Secretary of the Committee and shall circulate the minutes of the meetings of the Committee to all members of the Board.

NUMBER OF AUDIT COMMITTEE MEETINGS HELD IN THE FINANCIAL YEAR ENDED 31 DECEMBER 2003 AND ATTENDANCE OF EACH MEMBER

The Committee met 5 times during the financial year ended 31 December 2003 and the attendance of each member of the Audit Committee are as follows:-

Composition of The Committee	Attendance at the Committee Meetings
Dato' Yaacob bin Md Amin	5
Mr Yeoh Chong Keat	5
Mr Khow Eng Guan	5

Summary of activities of Audit Committee

During the financial year ended 31 December 2003, five Audit Committee meetings were held and the meetings were attended by all the Committee members. The Committee met once a year with the External Auditors without the presence of the Executive Committee members.

In line with the Terms of Reference of the Committee, the following activities were carried out by the Committee during the financial year ended 31 December 2003:

1. Reviewed the quarterly and annual financial results announcements and recommending for the approval by the Board of Directors, focusing particularly on compliance with accounting standards and regulatory requirements.
2. Reviewed the nature and scope of the audit with the external auditors, considered any significant changes in accounting and auditing issues, reviewed the management letter and management's response.
3. Reviewed the scope of internal audit plan and the results of the audit work carried out by the internal audit function.

Summary of activities of Internal Audit Function

During the financial year ended 31 December 2003, the Control & Development department carried out its duties covering operational audit, system audit and financial audit with the aim to provide reasonable assurances to the Audit Committee that the systems, operations and procedures continue to operate satisfactorily and effectively in the Group and its subsidiary companies.

Statement on Internal Control

Effective internal control and risk management practices are important in safeguarding the Group's assets and the shareholders' investment in the Company. Set out below is a statement outlining the state of the system of internal control of the Group during the financial year ended 31 December 2003.

Board's Responsibilities

It is the primary duty of the Board to maintain a sound system of internal control and to review its adequacy and integrity. The system of internal controls, covering both the financial and operational controls, involves all key operating units within the Group and is designed to meet the Group's business objectives and to manage the risks to which they are exposed. By virtue of the limitations inherent in any system of internal control, this system can only provide reasonable, and not absolute, assurance against material misstatement, loss or fraud.

Risk Management Framework

Risk is inherent in all of the Group's businesses. The major types of risks to which the Group is exposed to are financing, credit and operating risks. The Board has developed and implemented control mechanisms comprising policies and procedures to identify, mitigate, and monitor risk at various levels of the Group to ensure high standards of risk management.

Managers of each operating unit are entrusted with the primary responsibility to manage their own business risk within the control mechanisms established by the Board. During the financial year under review, the Board finalised the Group's Risk Management Framework and Risk Management Policy which were made effective in August 2003. The Risk Management Framework sets out the Group's underlying approach to risk management with the objectives to facilitate the formulation of the requisite action plans, controls and structures to manage the risks to which the Company is exposed. The Group's Risk Management Policy outlines common written arrangements that are essential for the effective operation of a risk management programme.

The Risk Management Committee, with the support of the Control & Development Department, has in place an on-going process for identifying, evaluating and managing the risks that may affect the achievement of the Group's business objectives.

Internal Audit Function

The Group has an independent internal audit unit whose core function is to perform an independent appraisal of the Group's activities and to evaluate the effectiveness of the system of internal controls. Reports on findings of the internal audit are presented to the Audit Committee of the Board for consideration.

Other Risks and Control Process

Apart from risk management and internal audit, the Group's operating units must comply with the Group's documented internal policies manuals. Compliance with these procedures is an essential element of the internal control framework. The policies manuals are periodically under review for changes to meet new business requirements. Clearly defined authorization limits at appropriate levels are set out in an authority matrix for controlling and approving capital expenditure and expenses. The matters requiring the Board's approval are clearly defined. The Group has also in place experienced and competent staff in areas of responsibility to support and continuously monitor the effectiveness of the Group's system of internal control.

Board's Conclusion

During the year under review, the Board is pleased to declare that the Group's system of internal controls is in line with the Malaysian Code on Corporate Governance and the Statement on Internal Control: Guidance for Directors of Public Listed Companies. No significant control failures or weaknesses that would result in material losses and require disclosure in the Group's annual report were identified during the year.

The Board recognizes the importance of operating a system of internal control that supports the business objectives of the Group. The Board will continuously assess the adequacy and effectiveness of the Group's system of internal control and to strengthen it, as and when necessary.

SHARE BUY-BACK

The Company did not buy any of its own shares during the financial year ended 31 December 2003.

OPTIONS, WARRANTS OR CONVERTIBLE SECURITIES

Pursuant to a Trust Deed dated 11 July 2002, the Company issued RM107,490,084 nominal value of 5-year 2% Irredeemable Convertible Unsecured Loan Stocks (ICULS) at 100% of its nominal value in satisfaction of the purchase consideration for the acquisition of two subsidiary companies, Billiontex Industries Sdn Bhd and Russella Teguh Sdn Bhd. As at 31 December 2003, RM43,777,389 nominal value of ICULS were converted into new ordinary shares of RM1 each in the capital of the Company. Other than the above, there was no exercise of options or warrants.

AMERICAN DEPOSITORY RECEIPT (ADR) OR GLOBAL DEPOSITORY RECEIPT (GDR)

The Company did not sponsor any ADR or GDR programme.

SANCTIONS AND/OR PENALTIES

Since the end of the previous financial year, there were no sanctions and/ or penalties imposed on the Company and its subsidiaries, Directors or management by the regulatory bodies.

NON-AUDIT FEES

The amount of non-audit fees paid to the external auditors in the financial year ended 31 December 2003 is RM28,000.

VARIATION IN RESULTS

There were no variances of 10% or more between the audited results for the financial year ended 31 December 2003 and the unaudited results previously announced by the Company.

PROFIT GUARANTEE

For the financial year ended 31 December 2003, there were no profit guarantees given by the Company.

MATERIAL CONTRACTS

Since the end of the previous financial year, there were no material contracts entered into by the Company and its subsidiaries, involving the Directors and substantial shareholders.

REVALUATION POLICY

The Group did not adopt any revaluation policy on the landed properties.