

# Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN THAT the 36th Annual General Meeting of the members of Lien Hoe Corporation Berhad will be held at 4th Floor, Menara Lien Hoe, No. 8 Persiaran Tropicana, Tropicana Golf & Country Resort, 47410 Petaling Jaya, Selangor Darul Ehsan on Tuesday, 27 June 2006 at 10.00 a.m. for the purpose of transacting the following businesses:-

## AS ORDINARY BUSINESS

1. To lay the Audited Financial Statements of the Company for the financial year ended 31 December 2005 together with the Directors' and Auditors' Reports thereon (*Resolution 1*)
2. To approve the payment of Directors' Fees. (*Resolution 2*)
3. To re-elect Mr Cheong Marn Seng, Allen who retires in accordance with Article 84 of the Company's Articles of Association. (*Resolution 3*)
4. To re-elect Mr Yeoh Chong Keat who retires in accordance with Article 84 of the Company's Articles of Association. (*Resolution 4*)
5. To re-elect Mr Kenneth Vun @ Vun Yun Liun who retires in accordance with Article 91 of the Company's Articles of Association. (*Resolution 5*)
6. To re-appoint Tun Dato' Seri Abdul Hamid bin Omar as Director of the Company pursuant to Section 129 (6) of the Companies Act, 1965. (*Resolution 6*)
7. To re-appoint Messrs Ernst & Young as Auditors of the Company, to hold office until the conclusion of the next Annual General Meeting of the Company, at a remuneration to be determined by the Directors. (*Resolution 7*)

## AS SPECIAL BUSINESS

To consider and if thought fit, pass the following Resolution:-

8. " THAT pursuant to the provision of Section 132D of the Companies Act, 1965 and approvals from Bursa Malaysia Securities Berhad and other relevant governmental/regulatory authorities where such approvals shall be necessary, authority be and is hereby given to the Directors of the Company to issue and allot shares in the Company from time to time and upon such terms and conditions and for such purposes as the Directors may deem fit provided that the aggregate numbers of shares issued pursuant to this resolution does not exceed 10% of the issued capital of the Company for the time being and such authority shall continue in force until the next Annual General Meeting of the Company." (*Resolution 8*)
9. To transact any other business of the Company for which due notice shall be given.

## BY ORDER OF THE BOARD

LEE SOOK PENG (MAICSA 0810465)  
*Secretary*

Petaling Jaya, Selangor Darul Ehsan  
2 June 2006

## **NOTES**

1. A member of the Company entitled to attend and vote at this meeting is entitled to appoint a Proxy to attend and vote instead of him. A Proxy need not be a member of the Company and the provisions of Section 149(1)(b) of the Companies Act, 1965 shall not apply to the Company.
2. In the case of a corporate member, the form of proxy appointing a corporate representative must be executed under seal or under the hand of an officer or attorney duly authorised.
3. Where a member is an authorised nominee as defined under the Securities Industry (Central Depositories) Act, 1991, it may appoint at least one proxy in respect of each securities account the authorised nominee holds with ordinary shares of the Company standing to the credit of the securities account.
4. The form of proxy must be deposited at the registered office of the Company at 18th Floor, Menara Lien Hoe, No. 8 Persiaran Tropicana, Tropicana Golf & Country Resort, 47410 Petaling Jaya, Selangor Darul Ehsan, not less than 48 hours before the time appointed for holding the meeting.

## **EXPLANATORY NOTES ON SPECIAL BUSINESS**

1. Resolution 8, if passed will empower the Directors of the Company to allot and issue new ordinary shares up to an amount not exceeding 10% of the issued share capital of the Company for such purposes as the Directors consider would be in the interest of the Company. This authority will commence from the date of this Annual General Meeting and unless revoked or varied by the Company at a General Meeting, will expire at the next Annual General Meeting.

## **2005 ANNUAL REPORT**

The 2005 Annual Report is in the CD-ROM format. Printed copy of the Annual Report shall be provided to the members upon request. Members who wish to receive the printed copy of the Annual Report and who require assistance with viewing the CD-ROM, kindly contact Ms Lee Sook Peng or Ms Wong Ngoke Meng at Tel. No. 03-78051331.

# Statement Accompanying Notice of Annual General Meeting

## STATEMENT ACCOMPANYING NOTICE OF ANNUAL GENERAL MEETING

1. The Directors who are standing for re-election are:-

Tun Dato' Seri Abdul Hamid bin Omar  
Mr Cheong Marn Seng, Allen  
Mr Yeoh Chong Keat  
Mr Kenneth Vun @ Vun Yun Liun

2. The details of attendance of directors at Board Meeting are as reported on page 12 of the Annual Report.
3. The profile of the Directors who are standing for re-election can be found on pages 6 to 8 of the Annual Report.

## Profile of Directors

**Tun Dato' Seri Abdul Hamid bin Omar**  
**(77 years of age – Malaysian)**  
**Chairman, Independent and Non Executive Director**

He was appointed the Chairman of the Company on 26 February 2003. He also serves as the Chairman of the Board's Audit Committee and a member of the Risk Management, Remuneration and Nomination Committees.

He studied law in England, was called to the English Bar on 22 November 1955 and is a member of the Honourable Society of Lincoln's Inn, London. He had served the Judicial and Legal Service of the Government of Malaysia from 1956 and carved out an illustrious career which culminated with his appointment as Lord President of the Supreme Court on 10 November 1988 until he retired in September 1994. He was then re-appointed for a further term of six months in accordance with the provisions of the Constitution as his services were still required by the nation. His wealth of knowledge and contributions to the legal profession earned him several State and Federal awards since 1966, the highest being the Federal award of Seri Setia Mahkota (SSM) which carries the title TUN.

He is also a Director of Olympia Industries Bhd, a company listed on the Main Board of Bursa Malaysia Securities Berhad.

**Dato' Yap Sing Hock**  
**(57 years of age – Malaysian)**  
**Managing Director (Executive Director)**

He was appointed the Managing Director of the Company on 30 January 2002. He also serves as a member of the Board's Nomination, Remuneration, Risk Management and Director Executive Committees.

He started his career as a property developer and has since then been in the property industry.

**Mr Chan Wah Long**  
**(52 years of age – Malaysian)**  
**Vice Chairman (Executive Director)**

He was appointed the Vice Chairman of the Company on 7 July 2004. He also serves as a member of the Board's Audit and Director Executive Committees.

He graduated from the London School of Economics with Bachelor of Science in economics in 1977 and began his career in the property industry by joining Rahim & Co. in 1979. He was the Managing Director of the Company from 1988 and resigned on 18 January 2002. Subsequently he remains the Advisor of the Company until his re-appointment as the Vice Chairman of the Company.

**Mr Cheong Marn Seng, Allen**  
**(41 years of age – Malaysian)**  
**Executive Director**

He was appointed a Director of the Company on 28 December 2001. He also serves as a member of the Board's Director Executive Committee.

He joined the Company in the year 2001 as the General Manager in charge of corporate finance. He has nearly 8 years of experience in investment banking, having served in senior position in the corporate finance department of a local merchant bank. He has had extensive exposure to corporate finance techniques such as

corporate restructuring, equity and debt issue, business valuation and acquisition. Prior to his stint with the investment banking industry, he worked for two international accounting firms for over 4 years during which he was involved in several aspects of auditing, financial management and consultancy. He holds a Bachelor of Commerce in economic and finance from the University of Melbourne, Australia and is presently a member of the Malaysian Institute of Accountants.

**Dr. Teoh Kim Loon**  
**(52 years of age – Malaysian)**  
**Non Independent and Non Executive Director**

He was appointed a Director of the Company on 7 July 2004.

He graduated in medicine with the MBBS from University of Malaya in 1979. He started his own general practice in 1983. In 1999, he was appointed an independent non executive director of Pharmaniaga Bhd, a company listed on the second board of Bursa Malaysia Securities Berhad. He resigned as a director from Pharmaniaga Bhd in 2001 and assumed the post of Director/Chief Executive of TDMC Hospital Sdn Bhd which owns a 128 bed private hospital in Kuala Lumpur.

He is also the founder member of Korporatif Doctor Malaysia, a life member of Malaysian Medical Association and a member of the American Board of Independent Medical Examiner.

**Mr Yeoh Chong Keat**  
**(47 years of age – Malaysian)**  
**Independent and Non Executive Director**

He was appointed a Director of the Company on 6 December 2001. He also serves as a member of the Board's Audit and Risk Management Committees and Chairs the Remuneration and Nomination Committees.

He is a chartered accountant by profession and is a Fellow of the Institute of Chartered Accountants in England and Wales, Fellow of the Malaysian Institute of Taxation, Chartered Accountant (M) and member of the Malaysian Institute of Certified Public Accountants.

He is currently a practising accountant and has been in practice upon his return from the United Kingdom in 1982 where he trained and later qualified as a chartered accountant with the firm now known as PricewaterhouseCoopers, United Kingdom. He was also formerly the Head of the Corporate Services Division of a "Big 4" accounting firm in Kuala Lumpur for over 10 years.

Currently he is the external company secretary of a number of public companies listed on Bursa Malaysia Securities Berhad. He is also a Director of Hiap Teck Venture Bhd, a company listed on the Main Board of Bursa Malaysia Securities Berhad.

**Mr Kenneth Vun @ Vun Yun Liun**  
**(32 years of age – Malaysian)**  
**Non Independent and Non Executive Director**

He was appointed a Director of the Company on 15 July 2005.

He is the founder and Managing Director of FTEC Resources Berhad (FRB). He obtained his Certified Solutions Consultant Certification (Information Technology) from Intel Corporation in 2000, CompTIA Server+ Certified Professional certificate from the Computing Technology Industry Association in 2001 and CIW Associates certifications in Internet and Web skills and Internet skills and Knowledge from CIW Certification in 2001. In

1992, with his keen interest in the IT industry, he started his career in the IT industry by incorporating FRB in 1994 with business operations in Sabah. He expanded the FRB Group operation to West Malaysia in 1998 and has since accumulated 10 years of working experience in the IT industry.

He leads a team of management in formulating the Group's business strategy and development, which are the key in the better performance of the FRB Group through the years.

In recognition of his success, he was awarded one of "The Outstanding Young Malaysian 2003" for the category "Business, Economic and/or Entrepreneurial Accomplishment" by the Junior Chamber, Malaysia. He was also selected as one of the Top 3 Nominees in ICT Entrepreneur category of the Ernst & Young Entrepreneur of the Year - Malaysia 2004.

#### **OTHER DISCLOSURE BY THE BOARD OF DIRECTORS**

None of the Directors has any family relationship with any director and/or substantial shareholders of the Company. The Directors do not have any conflict of interest with the Company and they have not convicted any offences within the past 10 years.

None of the Directors has any interest in the securities of the Company except for:-

<b>Name</b>	<b>Direct Holdings</b>		<b>Indirect Holdings</b>	
	<b>No.</b>	<b>%</b>	<b>No.</b>	<b>%</b>
Dato' Yap Sing Hock	10,248,250	3.38	821,250	0.27
Mr Chan Wah Long	445,249	0.15	19,809,037	6.53
Mr Cheong Marn Seng, Allen	325,000	0.11	–	–
Dr. Teoh Kim Loon	675,550	0.22	–	–
Mr Kenneth Vun @ Vun Yun Liun	60,000,000	19.77	–	–

## Chairman's Statement

On behalf of the Board of Directors, I am pleased to present the 2005 Annual Report and Audited Financial Statements for the financial year ended 31 December 2005.

Last year has been very difficult for the Group both operationally and financially. The industries within which the Group operates are facing diminishing profit margins and intensifying competition. Despite an increase in revenue to RM101.9 million from the previous year of RM97.9 million boosted by stronger performance from the hotel and construction businesses, the Group posted a lower operating profit of RM7.4 million as compared to RM13.6 million in year 2004. In comparison to the preceding year's loss of RM38.5 million, the Group registered a loss of RM27.8 million in 2005, a result mainly attributable to high interest cost associated to our borrowings and rising interest rate.

I would like to extend the warmest welcome to a new member to the Board, Mr. Kenneth Vun, who is a businessman in the local information technology industry. At the same time, on behalf of the Board, I wish to convey our deepest gratitude to Dato' Yaacob bin Md Amin who resigned from the Board on 15 July 2005. Dato' Yaacob's guidance and advice during his tenure in office are much appreciated and will be missed.

On behalf of the Board I would like to express our appreciation to our financiers, business associates and valued customers for their continued support and confidence during this very challenging environment for the Group. I also wish to thank the management and staff for their contribution and commitment and finally to our investors, thank you for your unwavering support and understanding.

Tun Dato' Seri Abdul Hamid bin Omar  
*Chairman*  
22 May 2006

# Review of Operations

The focus of the management for the past year had been on

- (1) sustaining our business volume and protecting our profit margins amidst the immense pressure from competition and rising cost of operations; and
- (2) actively identifying and seeking opportunities to realise the value of our assets.

## Property Investment

Property investment continues to be the Group's mainstay both in terms of net assets value and revenue contribution for the financial year under review. The Group generates income mainly from the following four commercial buildings which have a combined net lettable area of around 1.34 million square feet :-

Building	Location	Type	Lettable Area (sq. ft)
Kompleks Lien Hoe	Johor Bahru	Retail	821,212
Plaza Armada	Petaling Jaya	Retail	105,407
The Atria Shopping Centre	Petaling Jaya	Retail	204,726
Menara Lien Hoe	Petaling Jaya	Office	207,966

Revenue earned from property investment totalled RM29.6 million in year 2005, down from RM32.5 million in the preceding year. We consider last year was a transition period for Kompleks Lien Hoe and The Atria Shopping Centre as both properties have had to endure a major shift in tenant profile arising from loss of key tenants. In tandem with the lower revenue, operating income from property investment declined from RM19.4 million in year 2004 to RM15.4 million last year.

## Building Construction

The Group's building construction business, notwithstanding a relatively lacklustre market, remained busy last year with a turnover of RM48.9 million works completed, up from RM43.3 million in the previous year. The already thin profit margin in the construction industry was last year further hit by higher cost of raw materials, labour and transportation. As a result of the worsening profit margin, the operating profit from building construction business dropped from RM1.4 million in the previous year to RM0.5 million last year.

## Hotel

The Group's hotel business recorded a revenue of RM23.1 million for the year under review, representing an increase of RM1.4 million over the previous year's revenue of RM21.7 million. The higher revenue was achieved on the back of improved occupancy rate and stronger sales of food & beverage. The hotel industry in general was burdened with increased cost of operations arising particularly from higher government duty on alcoholic beverage and imported food. Due to the price-sensitive nature of the industry, not all the increased cost was passed on to the consumers. Despite all these pressures on margins, the hotel business was able to maintain last year's operating income at the previous year's level of RM8.2 million.

## **Property Development**

Last year we saw the Group's property development business took a big step forward with the sale of 8.5 acres of the 128.5 acres vacant development land in Puchong-Seri Kembangan to Tesco Stores (Malaysia) Sdn. Bhd. This was followed by the signing of a joint venture agreement this year with a strategic partner for the purpose of carrying out a commercial development on a further 50 acres of the aforesaid land. These were undertaken to accelerate the development of our land bank in Puchong-Seri Kembangan and we believe that this will bring substantial benefits to the remaining 70 acres of our land in the form of enhancement in value and marketability which augur well for future development opportunity. In addition, the joint venture is expected to generate some RM70 million in net cashflow for the Group over the next few years.

## **Overall Results and Outlook for 2006**

While we are generally satisfied with the overall efforts and performance of our businesses given the tough operating conditions last year, we were frustrated by the high finance cost of RM33.7 million resulting in the Group having to record a net loss of RM27.8 million for the financial year 2005. As the high debt level also gives rise to concern of the Group's financial sustainability, addressing the Group's borrowings has therefore been the overriding goal of our plan for the next two years. We have stated for some times that asset disposal is the only viable strategy to raise the needed cash to pare down the Group's debts. The Company has been prudent in negotiating the sale of its assets in order to maximize return and protect the interest of its shareholders. However, we are optimistic that we will conclude one or two sales of our properties this year to enable the Group to reduce its borrowings.

Dato' Yap Sing Hock  
*Group Managing Director*  
22 May 2006

# Statement on Corporate Governance

The Board of Directors ("the Board") of Lien Hoe Corporation Berhad continues to endeavour compliance with all the key principles and practices of the Malaysian Code on Corporate Governance (the "Code"). The following statement outlines the corporate governance practices that were in place throughout the financial year ended 31 December, 2005.

## 1. BOARD OF DIRECTORS

### 1.1 Board Composition and Balance

The Board presently consists of seven members; comprising three Executive Directors, two Independent and Non Executive Directors and two Non Independent and Non 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. The profile of each of the members of the Board can be found on pages 6 to 8 of this Annual Report.

There is balance in the Board represented by the presence of two Independent and Non Executive 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.

### 1.2 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.

### 1.3 Board Meetings

Five board meetings were held in the financial year ended 31 December, 2005 and the attendance record of each director is as follows :

Directors	Meeting Attendance
Tun Dato'Seri Abdul Hamid Bin Omar	5/5
Mr Chan Wah Long	5/5
Dato' Yap Sing Hock	4/5
Mr Cheong Marn Seng, Allen	4/5
Mr Yeoh Chong Keat	5/5
Dr Teoh Kim Loon	5/5
Mr Kenneth Vun @ Vun Yun Liun (appointed on 15/7/2005)	2/2
Dato' Yaacob Bin Md Amin (resigned on 15/7/2005)	3/3

During the year, the Board resolved and approved the Group's matters through board meetings or by way of circular resolutions.

#### **1.4 Supply of Information**

The Board had been supplied with complete 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. 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.

#### **1.5 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.

#### **1.6 Board Committee**

The Board has delegated specific responsibilities to other Board Committees. The details of each of the said committees are set out below:-

##### **1.6.1 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 pages 16 to 19 of this Annual Report.

##### **1.6.2 Executive Committee**

The Executive Committee which comprises Dato' Yap Sing Hock, Mr Chan Wah Long and Mr Cheong Marn Seng, Allen was established to be responsible for, inter-alia, the following duties and responsibilities:

1. To review and monitor the performance of all operating units and subsidiaries of the Company;
2. As approving authority for all capital expenditures and contractual commitments exceeding RM1,000,000 undertaken by the Group; and
3. To review and prescribe policies in relation to the day to day operations of the Group.

##### **1.6.3 Nomination Committee**

The Nomination Committee consist of the following members:-

Mr Yeoh Chong Keat  
*(Chairman, Independent and Non Executive Director)*

Tun Dato'Seri Abdul Hamid Bin Omar  
*(Independent and Non Executive Director)*

Dato' Yap Sing Hock  
*(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.

#### **1.6.4 Remuneration Committee**

The Remuneration Committee consists of the following members:-

Mr Yeoh Chong Keat  
*(Chairman, Independent and Non Executive Director)*

Tun Dato'Seri Abdul Hamid Bin Omar  
*(Independent and Non Executive Director)*

Dato' Yap Sing Hock  
*(Executive Director)*

The Remuneration Committee reviews and recommends to the Board the remuneration of the Executive Directors of the Company. The Directors do not participate in decisions on their own remuneration.

#### **1.6.5 Risk Management Committee**

The Risk Management Committee consists of the following members: -

Mr Yeoh Chong Keat  
*(Independent and Non Executive Director)*

Tun Dato'Seri Abdul Hamid Bin Omar  
*(Independent and Non Executive Director)*

Dato' Yap Sing Hock  
*(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.

## **2. DIRECTORS' REMUNERATION**

Analysis of the Directors' Remuneration are set out on pages 64 to 65 of this Annual Report.

## **3. 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.

## **4. ACCOUNTABILITY AND AUDIT**

### **4.1 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.

### **4.2 Internal Control**

The Statement on Internal Control appended on page 20 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.

### **4.3 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 16 to 19 of this Annual Report.

## **5. DIRECTORS' TRAINING**

All the Directors have attended the Mandatory Accreditation Programme as prescribed by Bursa Malaysia Securities Berhad and all the Directors have attended trainings during the financial year ended 31 December 2005. The training programmes and seminars attended by the Directors are on areas relating to corporate governance, risk management and listing requirements of Bursa Malaysia Securities Berhad.

The Directors will continue to undergo other relevant training programmes and seminars to keep themselves abreast of the latest development in business and listing regulations.

## **6. DIRECTORS' RESPONSIBILITY STATEMENT**

The Companies Act, 1965 requires the Directors to prepare the financial statements of the Company and of the Group in accordance with the applicable approved accounting standards and give a true and fair view of the state of affairs of the Company and of the Group as at the end of the financial year and of their results and cashflow for the year then ended.

The Directors are to ensure that appropriate accounting policies have been used and applied consistently, and that reasonable and prudent judgements and estimates have been made in the preparation of the financial statements.

The Directors are responsible for ensuring the Group keeps proper accounting records so as to enable the preparation of the financial statements with reasonable accuracy.

The Directors are also responsible for taking such reasonable steps to safeguard the assets of the Company and of the Group, to prevent and detect fraud and other irregularities.

# Audit Committee

## THE AUDIT COMMITTEE COMPRISES THE FOLLOWING DIRECTORS: -

### **TUN DATO' SERI ABDUL HAMID BIN OMAR**

*(Chairman, Independent and Non Executive Director)*

### **MR YEOH CHONG KEAT**

*(Independent and Non Executive Director)*

### **MR CHAN WAH LONG**

*(Executive Director)*

## TERMS OF REFERENCE

### COMPOSITION

The Audit 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 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 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 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.
- (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 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 Audit Committee and shall circulate the minutes of the meetings of the Audit Committee to all members of the Board.

## NUMBER OF AUDIT COMMITTEE MEETINGS HELD IN THE FINANCIAL YEAR ENDED 31 DECEMBER 2005 AND ATTENDANCE OF EACH MEMBER

The Audit Committee met 6 times during the financial year ended 31 December 2005 and the attendance of each member of the Audit Committee are as follows:-

Composition of The Audit Committee	Meeting attendance
Tun Dato' Seri Abdul Hamid bin Omar <i>(Appointed on 29 March 2005)</i>	5/5
Mr Yeoh Chong Keat	6/6
Mr Chan Wah Long	6/6
Dato' Yaacob bin Md Amin <i>(Resigned on 15 July 2005)</i>	3/3

## SUMMARY OF ACTIVITIES OF AUDIT COMMITTEE

During the financial year ended 31 December 2005, 6 Audit Committee meetings were held. The Audit 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 Audit Committee during the financial year ended 31 December 2005:-

1. Reviewed the quarterly and annual financial results announcements and recommending them 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; and
3. Reviewed the scope of internal audit plan and the results of the audit work carried out by the internal audit function.

# 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 2005.

## 1. 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 risk management and the financial, operational and compliance 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 it is exposed. This system, by virtue of its limitations, can only provide reasonable, and not absolute, assurance against material misstatement, loss or fraud.

## 2. Key Elements of the Group's Internal Control System

### 2.1 Control Environment and Control Activities

- An organization structure with defined lines of responsibility and a process of hierarchical reporting is in place.
- Experienced and competent staff are placed in areas of responsibility to support and continuously monitor the effectiveness of the Group's system of internal controls.
- Clearly defined authorization limits at appropriate levels are set out in an authority matrix for controlling and approving capital expenditure and expenses.
- Clearly documented Internal Policies, Standard Operating Procedures and Personnel Manual set to provide a clear framework for good internal control practices. These policies manuals are the subject of regular reviews to meet new business requirements.

### 2.2 Monitoring and Communication

- Regular Board and management meetings are held to assess performance and controls.
- Regular visits to operating units are carried out by members of the Board and senior management whenever appropriate.
- Regular review of business processes to assess the effectiveness of internal controls is conducted by the independent internal audit unit. Reports on findings of the internal audit are presented to the Audit Committee of the Board for consideration.

### 2.3 Risk Management

- The Group adopts an ongoing process to identify, manage and respond to internal and external factors that may affect the achievement of the Group's business objectives and performance. During the year under review, the Group's operating units, with the support of the Control & Development department, carried out risk assessment exercise to affirm the Corporate Risk Profile.

## 3. Review of Effectiveness

During the year under review, the Board is of the opinion that the internal control system currently in place is adequate and effective to safeguard the Group's interest and assets.

For the coming year, the Board will continually assess the adequacy and effectiveness of the Group's system of internal control and to strengthen it, as and when necessary.

## Other Information

### SHARE BUY-BACK

The Company did not buy any of its own shares during the financial year ended 31 December 2005.

### 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 2005, RM48,904,388 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 regulating bodies.

### NON-AUDIT FEES

The amount of non-audit fees paid to the external auditors in the financial year ended 31 December 2005 is RM8,000.

### VARIATION IN RESULTS

There were no variances of 10% or more between the audited results for the financial year ended 31 December 2005 and the unaudited results previously announced by the Company.

### PROFIT GUARANTEE

For the financial year ended 31 December 2005, 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.