

## **statement of corporate governance**

The Board of Directors of Nakamichi Corporation Berhad ("NCB") is committed to ensuring that high standards of corporate governance are practised throughout the Company and its subsidiaries ("the Group") as a fundamental part of discharging its responsibilities to protect and enhance shareholder value and the financial position of NCB and the Group. To this end, the Board fully supports the recommendations of the Malaysian Code of Corporate Governance.

Set out below is a statement of how the Group has applied the principles of the Code. The Board of Directors confirms that the Group has complied with the best practices in the Code throughout the financial year ended 31 December 2005.

### **THE BOARD OF DIRECTORS**

The Board assumes responsibility for effective stewardship and control of the Group towards realising long term shareholders' value, and has established terms of reference to assist in the discharge of this responsibility.

The Board has the overall responsibility for reviewing and adopting strategic plans for the Group, overseeing the conduct of the Group's businesses, implementing an appropriate system of risk management and ensuring the adequacy and integrity of the Company's systems of internal control. The composition of the Board reflects a balance of Executive and Non-Executive Directors, all from diverse professional backgrounds with a wide range of business, financial and legal experiences relevant to lead the Company, and as such, are able to bring an independent judgement to bear on issues in terms of business strategies, financial and operational performance, resources and standards of conduct.

The Board meets on a quarterly basis, with additional meetings convened as and when necessary. During the financial year ended 31 December 2005, four (4) Board meetings were held. Details of attendance are set out in the statement accompanying the Notice of the Twelfth Annual General Meeting.

Prior to each Board meeting, the members of the Board are each provided with the relevant documents and information to enable them to arrive at an informed decision.

The Board has delegated specific responsibilities to 3 subcommittees (Audit, Nomination and Remuneration Committees), the details of which are set out below. These Committees have the authority to examine particular issues and report back to the Board with their recommendation. The ultimate responsibility for the final decision on all matters, however, lies with the entire Board.

All Directors have completed the CEP requirements except for Mr Ma Chi Chiu. Mr Ma Chi Chiu was unable to complete the CEP requirements as he had an exceptionally committed schedule for 2005. Mr Ma Chi Chiu is not a Malaysian resident and the timing of the courses could not meet with his committed schedules. None of the Directors have attended other directors training courses for the financial year ended 31 December 2005 as the directors utilised the time to comply with CEP requirements for the year 2005. The Directors will endeavour to undergo further training from time to time, particularly on relevant new laws and regulations, and changing commercial risks.

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### **BOARD BALANCE**

The Board currently has seven (7) members, comprising one (1) Executive Director, two (2) Non-Independent Non-Executive Directors and four (4) Independent Non-Executive Directors including the Chairman. The current Board composition complies with the Listing Requirements of Bursa Malaysia Securities Berhad. A brief description of the background of each Director is presented in the Annual Report.

There is also a balance in the Board because of the presence of Independent Non-Executive Directors of the calibre necessary to carry sufficient weight in Board decisions. Although all the Directors have an equal responsibility, the role of these Independent Non-Executive Directors is particularly important in ensuring that the strategies proposed by the executive management are fully discussed and examined, and take account of the long term interests, not only of the shareholders, but also of employees, customers, suppliers, and the many communities in which the Group conduct its business.

Lee Hock Chye act as the Senior Independent Non-Executive Director. Any concerns concerning the Group may be conveyed to him.

While the Company has a holding company, the investment of minority shareholders is fairly reflected through Board representation.

### **SUPPLY OF INFORMATION**

All Directors review a Board report prior to the Board meeting. This is issued in sufficient time to enable the Directors to obtain further explanations, where necessary, in order to be briefed properly before the meeting.

The members of the Board in their individual capacity have access to complete information on a timely basis in the form and quality necessary for the discharge of their duties and responsibilities. Besides direct access to management staff, external professional advisers are also made available to render their independent views and advice to the Board, where necessary in the furtherance of their duties and at the Group's expense.

All Directors have access to the 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.

### **APPOINTMENTS TO THE BOARD**

The Malaysian Code on Corporate Governance endorses, as good practice, a formal procedure for appointment to the Board with a Nomination Committee making recommendations to the Board. The Nomination Committee was set up on 7 December 2001.

### **NOMINATION COMMITTEE**

Mirzan Bin Mahathir (Chairman)  
Lee Hock Chye  
Yohan A Rajan

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The Nomination Committee had one (1) meeting during the financial year ended 31 December 2005 which was attended by Lee Hock Chye and Yohan A Rajan. All members of this Committee are independent non-executive Directors.

The Nomination Committee recommends to the Board:

- candidates for all directorships to be filled by shareholders or the Board; and
- directors to fill the seats on Board committees.

In addition, this Committee assesses:-

- and examines the size of the Board with a view to determine the number of Directors on the Board in relation to its effectiveness;
- the effectiveness of the Board as a whole and the Committees of the Board; and
- the contribution of each individual Director.

The Board, through the Nomination Committee, reviews annually its required mix of skills and experience and other qualities, including core competencies which non-executive Directors should bring to the Board.

### **RE-ELECTION**

In accordance with the Company's Articles of Association, all newly appointed Directors are subject to retirement and are entitled for re-election at the first annual general meeting after their appointment. All Directors shall retire from office once at least in each 3 years, but shall be eligible for re-election. An election of Directors shall take place each year.

### **DIRECTORS' REMUNERATION**

The Company has adopted the objective as recommended by the Malaysian Code on Corporate Governance to determine the remuneration for a Director so as to ensure that the Company attracts and retains the Directors needed to run the Group successfully. The component parts of remuneration are structured so as to link rewards to corporate and individual performance, in the case of executive Directors. In the case of non-executive Directors, the level of remuneration reflects the experience and level of responsibilities undertaken by the particular non-executive concerned.

### **REMUNERATION PROCEDURE**

The Remuneration Committee recommends to the Board the executive remuneration and its cost, and the remuneration package for each executive Director. It is, nevertheless, the ultimate responsibility of the entire Board to approve the remuneration of these Directors.

The determination of the remuneration of the non-executive Directors is a matter for the Board as a whole with the Director concerned abstaining from deliberations and voting on decisions in respect of his individual remuneration.

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### **REMUNERATION COMMITTEE**

Mirzan Bin Mahathir (Chairman)  
Lee Hock Chye  
Yohan A Rajan

The Remuneration Committee had two (2) meetings during the financial year ended 31 December 2005. All members of this Committee are Independent Non-Executive Directors. The details of the attendance are as follows:-

	Meetings attended
Mirzan Bin Mahathir	1/2
Lee Hock Chye	2/2
Yohan A Rajan	2/2

### **DISCLOSURE**

The details of the Directors' remuneration for the financial year ended 31 December 2005 are disclosed in the notes to the Audited Financial Statements for the financial year ended 31 December 2005.

### **DIALOGUE BETWEEN COMPANIES AND INVESTORS AND THE ANNUAL GENERAL MEETING**

At each Annual General Meeting, the Board presents the progress and performance of the business and encourages shareholders to participate in the question and answer session. Executive Directors and, where appropriate, the Chairman of the Audit, Nomination and Remuneration Committees are available to respond to shareholders' questions during the meeting.

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

The notice convening such meetings are sent to shareholders at least fourteen days before the shareholders' meetings in the case of an ordinary resolution and twenty-one days in the case of a special resolution or Annual General Meeting. The shareholders are also kept informed of the Group's financial results and corporate developments through public announcements made to Bursa Malaysia Securities Berhad.

### **AUDIT COMMITTEE**

Yohan A Rajan (Chairman)  
Lee Hock Chye  
Johan Zainuddin Bin Dzulkifli  
Michael Andrew Barclay Binney

The report by the Audit Committee for the period is set out in this Annual Report.

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### **FINANCIAL REPORTING**

The Board is responsible for ensuring the proper maintenance of accounting records of the Group. The Audit Committee reviews the financial statements of the Company and the Group with the assistance of the external auditors where necessary and recommends the same for consideration and approval by the Board. The Board discusses and reviews the recommendations proposed by the Audit Committee prior to adoption of the financial statements of the Company and of the Group. In presenting the annual financial statements and quarterly announcement to shareholders, the Directors aim 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.

### **INTERNAL CONTROL**

The Board has overall responsibility for maintaining a sound system of internal controls, which provides reasonable assessment of effective and efficient operations, internal financial controls and compliance with laws and regulations as well as risk management. This system can only provide reasonable but not absolute assurance against material misstatements, losses and fraud.

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

### **RELATIONSHIP WITH AUDITORS**

The Board maintains a transparent and formal relationship with the Group's external auditors, primarily through the Audit Committee in seeking professional advice and ensuring compliance with the relevant accounting standards. The external auditors are invited to attend the meetings of the Audit Committee and the Board whenever necessary to discuss the Group's Financial Statements.

## **directors' responsibility statement**

The Directors are required by the Companies Act, 1965 to prepare financial statements for each financial year, that have been made out in accordance with the applicable approved accounting standards and that give a true and fair view of the state of affairs of the Group and Company at the end of the financial year, and of the results and cash flows of the Group and Company for the financial year.

In preparing the financial statements, the Directors have:

- applied the relevant accounting policies and standards consistently;
- made judgments and estimates that are reasonable and prudent; and
- prepared financial statements on going-concern basis, as the Directors have reasonable expectations, having made inquiries, that the Group and Company have adequate resources to continue in operational existence for the foreseeable future.

The Directors have responsibility to ensure that the Company keeps accounting records with reasonable accuracy of the financial position of the Group and Company, and which enable them to ensure that the financial statements comply with the Companies Act, 1965.

The Directors have overall responsibility for taking such steps as are reasonably expected to safeguard the assets of the Group, prevent and detect fraud, and other irregularities.

The Directors have provided the Auditors with every opportunity to take all steps, undertake all inspections and seek all explanations they considered appropriate for the purpose of enabling the Auditors to give their audit report on the financial statements.