

Operating Units:

Tamco Corporate Holdings Berhad

Tamco Shanghai Switchgear Company Limited (China)

Universal Motor Control Pty Limited (Australia)

PT Kontrol Ragam Indonesia

Tamco Systems (Singapore) Pte Ltd

Tamco Systems (Malaysia) Sdn Bhd

Tamco Systems (Hong Kong) Limited

Switchgear supplied to TNB's Manjung Power Plant, Perak.



Engineering Division

The Engineering Division enjoyed a relatively successful year despite sluggish international and regional markets, which were made weaker by the Iraq war and the outbreak of SARs.

The Division saw a growth in total sales from RM242.5 million last year to RM255.2 million this year, marking a healthy 5.2% increase. Tamco Corporate Holdings Berhad ("Tamco") remained the main revenue contributor, having generated RM136.8 million in external sales (compared to RM108.8 million in the previous year) and a profit before tax of RM16.7 million (compared to RM15.1 million in the previous year). The creditable showing was due to an increase in domestic and export sales, assisted by stronger penetration in the Middle Eastern market.

Following an independent strategic review last year which led to a one-time write-down of the carrying cost of certain assets to their net realisable values, the Engineering Division made a swift and complete turnaround to record a profit before tax of RM14.6 million for the year, compared to a loss before tax of RM17.3 million in the previous year.

Some of the key strategic initiatives undertaken by the Engineering Division were:

1 Reaffirming Focus on Exports

Tamco continued to capitalise on its reputation as a high quality and reliable supplier to increase penetration in export markets. By constantly offering customised solutions to meet customer needs, it has carved for itself a competitive edge in the niche market. These efforts have met with notable success, with significant orders from Dubai and Libya secured during the year.

2 New Senior Management Appointments

To address the rapidly changing needs of the business, Tamco made several management changes during the year, including the appointment of a new General Manager for its Shanghai operations and a new Chief Executive Officer for the trading division.

3 Continuous Improvement through 'Kaizen'

Tamco continued to embrace the 'kaizen' work methodology to reduce costs and preserve margins amidst falling prices. In line with these efforts, Tamco focused on sourcing for more cost-competitive components from China. Leveraging on Nylex's expertise with polyurethane (PU) has also enabled Tamco to reduce its PU cost by 30%.

4 Improvements in Financial Management

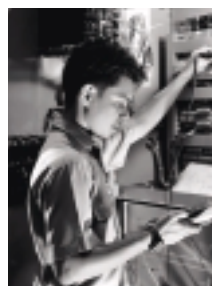
In conjunction with the de-merger and listing exercises, Tamco successfully tapped the debt capital markets by launching a RM80.0 million Nominal Value of long-term fixed rate Bai' Bithaman Ajil Serial Bond, rated A1 by Rating Agency Malaysia Berhad. The proceeds of the bond were partly used to repay inter-company loans provided by Nylex, its immediate holding company. The remaining funds were utilised to refinance its short-term borrowings.

5 Increased Product Offerings

Tamco continued to build on its versatility by developing new products to meet customer needs. Among several new products launched this year were a low-cost 24/36 kV modular-based medium voltage switchgear, a lower cost low-voltage switchgear/motor control centre, and a new busduct design which is less costly and easier to install. Tamco's better financial position following the Bond issue will enable it to expand its present range of product offerings through its R&D or the acquisition of new technologies.

6 Upgrading and Expansion of Existing Capabilities

During the year, Tamco upgraded its IT system to enhance its ERP system. In conjunction with this project, it undertook a business process improvement exercise to streamline its processes and eliminate system inefficiencies. When fully implemented in 2004, it will allow Tamco to optimise its global presence, benchmarking against world-class operators. It will also enable Tamco to capitalise on synergies derived from cross-selling and cost reductions through the integration of supply chain management.



Tamco produces high quality switchgear and control gear that meet the most stringent of tests.

The immediate future of the industry is anticipated to be modestly upbeat. The expected flotation of new tenders and government-funded infrastructure projects should improve the domestic situation. The increasing reliance of businesses on information communication technology (ICT) is inevitable, translating into a rising demand for quality and reliable technology applications and products. On a cautionary note, the construction industry is expected to remain weak, both at home and in other regional markets in Asia.

The outlook for China remains bright as Tamco continues its efforts to lower production costs in Tamco Shanghai and expand its market share. Its stake in the Tamco Chongqing joint venture has been increased from 37.5% to 49.0%. In Australia, the domestic markets continue to be the main focus while in Indonesia, the low cost base of its 70% owned subsidiary, PT Kontrol Ragam Indonesia (KRI), is being capitalised upon to achieve greater cost efficiencies. Having successfully re-designed the LV switchgear/motor control centre to be more cost-competitive, Tamco aims to capture greater market share in the mining and oil and gas sectors.

Given the weak construction sector and the abundance of low-priced imports from China, the prospects of the trading units of Tamco Electrical and Electronics (TEE) remain sombre, with downward pressure on prices and margins expected to continue. To remain competitive and profitable, the senior management has embarked on an initiative to redefine TEE's strategies and focus on certain specialty vertical markets. The TEE Division has been renamed Tamco Systems Group with three regional sub-divisions, namely Tamco Power System, Tamco Specialty System and Tamco Service System.

Responding quickly to the uncertainties and changes in the marketplace will be the answer to staying ahead of the competition. We will meet this challenge by continuing to build on our competitive strengths to improve our services.



A variety of installations including utility substations, airports and mass rail transit stations, rely on Tamco's equipment to protect their electricity systems.



We constantly invest in our people to enhance value to our shareholders.



BUILDING PRODUCTS

Operating Units:

Malaysian Roofing Industries Sdn Bhd

PT Indomalay Ekatana Roofing Industries (Indonesia)

Roofing solutions for Petronas Training Centre in Bangi.



Building Products Division

Efforts were made to extend into regional markets in order to diversify the Division's customer base, resulting in exports comprising 30% of sales.

As with the Polymer and Engineering Divisions, the Building Products Division defied the odds to register creditable results for the year. Despite it being a challenging year for the construction industry, exacerbated by the Iraq war and outbreak of SARs, the Division recorded a profit before tax of RM1.4 million compared to a loss of RM3.3 million in the previous year.

Sales for Malaysian Roofing Industries (MRI) and PT Indomalay Ekatana Roofing Industries (IRI) increased marginally from RM13.2 million last year to RM13.7 million this year, with profit before tax reaching RM1.4 million compared to RM0.4 million in the previous year.

As a whole, the Division recorded total sales of RM13.7 million, a decline from RM25.0 million in the previous year. This was largely due to the divestment of Asia Pacific Insulation Corporation (APIC), its glasswool insulation business in the Philippines, in FY 2002. APIC contributed total sales of RM11.8 million in the previous year before its disposal.

Various initiatives from the previous year continued to be implemented with encouraging results:

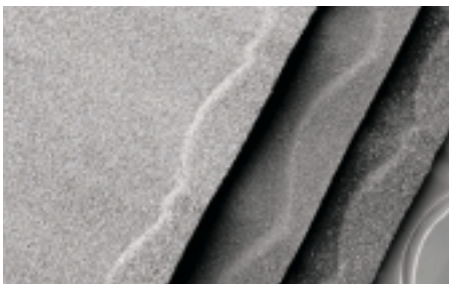
1 Diversifying Customer Base through Exports

Efforts were made to extend into regional markets in order to diversify the Division's customer base, resulting in exports comprising 30% of sales. While sales in Taiwan and South Korea remained lukewarm due to continued supply overhang in the property sector and stiff competition from local suppliers respectively, efforts to penetrate new export markets met with success due to projects in China, Maldives, Lebanon, Bahrain and Turkey.

2 Increasing Product Range and Awareness

To keep pace with customer needs in the lower cost segment of the market, several new products were launched in Indonesia during the year, including a new industrial long run profile, dual tone profiles and step tiles. MRI participated in several trade exhibitions in China and the Middle East to promote awareness of its products and reinforce its brandname as a manufacturer of high quality roofing solutions. With several projects and tenders in the pipeline, MRI is likely to see an increase in sales in the coming year.

In the coming year, the domestic market is expected to remain lethargic due to oversupply of commercial and industrial property. We will continue to focus on the export market and will aggressively pursue exports to China, Japan and the Middle East. New product offerings such as new tile profiles and coatings will further complement our sales strategies.



New tile profiles keep MRI abreast with market trends.



At MRI, we merge aesthetics with practicality in designing roofing solutions for our customers.

Statement of Corporate Governance

The Board is committed to maintaining a high standard of corporate governance and upholding its fundamental duty to safeguard the Group's assets, to enhance shareholders' value and the financial performance of the Group. As such, the Board recognises the importance of practising good corporate governance and of continued effort to improve on its corporate governance practices and structure. The Board fully supports the recommendations of the Code of Corporate Governance issued by the Finance Committee on Corporate Governance ("Code") and the Group has adhered to the principles contained therein throughout the financial year ended 31 May 2003 to the extent described in this Statement of Corporate Governance.

Board of Directors

Composition

The Board comprises ten (10) Directors, four (4) of whom are Executive Directors, five (5) Independent Non-Executive Directors and one (1) Non-Independent Non-Executive Director. The substantial majority of Non-Executive Directors on the Board, who are not involved in the day to day running of the Group's business operation, has enhanced the Board's objectivity in discharging its responsibility effectively.

A brief profile of each Director is presented on pages 6 to 9 of this Annual Report. The profile demonstrates the depth and experience of the Board which consists of Directors with experience in legal, accounting, economics, corporate finance, marketing and business practices. In the opinion of the Board, the Board possesses the necessary skills, experience and knowledge to successfully direct and supervise the Group's affairs.

Meetings and Supply of Information

The Board meets at least once every quarter to approve the interim results announcement, the annual audited accounts and all major corporate proposals. Due notice is given for all scheduled Board meetings and additional meetings are convened on other occasions to consider urgent and important matters. During the financial year, a total of four (4) Board meetings were held. Attendance of the Directors are presented on pages 6 to 9 – Directors Profile of this Annual Report.

Prior to each Board meeting, the Directors are provided with the relevant reports to facilitate a comprehensive understanding of the issues to be deliberated upon. In addition, the Group Managing Director or the Executive Directors will explain to the Board the rationale of the matters to be discussed and the implications thereof on the Company and the Group. Where necessary, the Advisors were also present to provide their professional inputs on the matters discussed, to the Board. The Directors are free to discuss the merits of the matters in an open and unrestrictive manner during the Board Meetings.

Ad hoc reports are also provided to the Directors to ensure that they are apprised of the key matters on a timely basis. Besides having direct access to the advice and services of the Company Secretary, the Directors are also entitled to seek external professional advice, if they so wish, at the Company's expense in furtherance of their duties.

Duties and Responsibilities

The roles of the Chairman and the Executive Directors including the Executive Vice-Chairman and the Group Managing Director are distinct and separate to ensure a balance of power and authority. The Chairman is responsible for the orderly conduct of the Board while the Executive Directors are responsible for the day to day running and management of the business operation and implementation of the Board's decisions and policies. The Group Managing Director is subject to the control of the Board of Directors.

The Non-Executive Directors and the Independent Non-Executive Directors fulfill an independent, pivotal role in corporate accountability. They play an important role in ensuring that no minority group of Directors or an individual Director dominates the Board's discussion. They provide unbiased and independent assessments and views, advice and judgment in the decision-making process by the Board. The decisions of the Board are decided by a simple majority of votes of the Directors present at the Board Meetings.

None of the Non-Executive Directors and the Independent Non-Executive Directors are involved in the day to day running and management of the Group's business operations. They are actively involved in various Board Committees of the Company, which are the Audit Committee and the Remuneration & Nomination Committee.

Directors' Training

All Directors have completed the Mandatory Accreditation Programme as prescribed by the Kuala Lumpur Stock Exchange Listing Requirements.

The Board believes that the Directors should receive continuous training from time to time, particularly in view of the changing laws, regulations and business environment in which the Group operates. As an integral part of the continuous education programme for the Directors, the management will update the Directors with information on the Group's business while the Company Secretary will provide the Directors with the relevant guidelines on statutory and regulatory requirements.

Further, the Directors are required to attend the Continuing Education Programme prescribed by the Kuala Lumpur Stock Exchange Listing Requirements. They are encouraged to attend other forums, seminars and programmes to increase their knowledge in laws/regulations and business practices from time to time.

Re-election

In accordance with the Company's Articles of Association, a newly appointed Director is subject to retirement and is entitled for re-election at the first annual general meeting after his/her appointment. All Directors retire on a rotational basis once every three (3) years and are entitled to offer themselves for re-election at the Company's annual general meeting. None of the Executive Directors has a service contract where the notice period for termination is more than one (1) year.

For re-election of Directors at the annual general meeting, the notice of annual general meeting will state the name of the Directors seeking to be re-elected with a brief description of their:

- Age and nationality
- Status (whether independent or non-independent)
- Relevant experience / qualifications / occupations
- Directorships in other listed companies
- Shareholding in the Company and its subsidiaries
- Family relationship with any directors and/or substantial shareholders of the Company
- Any conflict of interest with the Company
- Any convictions for offences within the past 10 years other than traffic offences

The motion to re-elect Directors is voted on individually.

Remuneration and Nomination Committee

In accordance with the best practices of the Code, the Company had established a Remuneration and Nomination Committee ("R&N Committee") on 24 September 2001. The Board has decided to combine the functions of the Remuneration Committee and Nomination Committee into one R&N Committee. Its present members, all of whom are Non-Executive Directors, are:

Chieng Ing Huong (Chairman)
Y. Bhg. Dato' Mohd Ismail bin Che Rus
Teo Ek Tor

During the year, the R&N Committee held one (1) meeting.

The R&N Committee is responsible for identifying, recruiting and making recommendations to the Board on new Board and Board Committee appointments and the re-election of retiring Directors. It will review the required mix of skills and experiences of the Directors of the Board as a whole.

The R&N Committee has been established to facilitate the discharge of the Board's stewardship responsibility over the remuneration of the Company's Directors. In this respect, the R&N Committee will seek professional advice with a view to establish suitable practices, procedures and processes for an effective annual assessment of the effectiveness of the Board as a whole and of the contribution of each individual Director and Board Committee member. The R&N Committee will also seek professional advice as to the level of the remuneration to be paid to each individual Director, after taking into account the market practices.

It is the Group's practice that the Executive Directors are to be rewarded after taking into account the Group's financial performance as well as market comparisons and competitive pressures in the industry. For Non-Executive Directors, the level of remuneration reflects the amount paid by other comparable organisations.

The Company reimburses reasonable out-of-pocket expenses incurred by the Directors in the course of their duties as Directors of the Company. It is the ultimate responsibility of the Board to approve the remuneration of the Directors. Director's fees are subject to the shareholder's approval at the annual general meeting.

Directors' Remuneration

The breakdown of the remuneration received and receivable by the Directors from the Company and its subsidiaries during the financial year is disclosed in note 6 to the financial statements on page 57 of this Annual Report.

Shareholders

Investors' Relations and Shareholders' Communication

The Board recognises the importance of accountability to its shareholders, stakeholders and investors through proper, timely and adequate dissemination of information on the Group's performance and other development via an appropriate channel of communication. The annual reports, the interim results announcements and other announcements, the circulars to shareholders and press releases are the primary modes of communication to report the Group's business, results and other major developments to its shareholders, stakeholders and investors.

The Company has also established a website www.nylex.com where shareholders, stakeholders and investors can have access to the Company's news and information.

In addition, shareholders, stakeholders and investors who wish to convey their concerns or queries on the Company and the Group may contact the Senior Independent Non-Executive Director, Y. Bhg. Dato' Mohd Ismail bin Che Rus by post at 602, 6th Floor, Block A, Phileo Damansara 1, No. 9, Jalan 16/11, 46350 Petaling Jaya, Selangor Darul Ehsan, Malaysia, fax at 603-7660 1151 or e-mail at corp@nylex.com.

Annual General Meeting ("AGM")

The AGM serves as a principal forum for dialogue between the Directors and the shareholders. Notice of the AGM is sent to the shareholders at least 21 days prior to the date of the meeting and the Notice of the AGM would also be advertised in an English newspaper. Full explanation of the effects of the proposed business would be included to any items of special business in the Notice of the AGM.

On other general meetings, comprehensive circulars to shareholders together with a notice of the meeting are sent to the shareholders within prescribed deadlines in accordance with the regulatory and statutory provisions.

To encourage shareholders to attend the Company's general meetings, the Company would hold its general meetings at places that are easily accessible and at a time convenient to the shareholders.

At the AGM and general meetings, the shareholders are encouraged and given sufficient opportunity to enquire about the Group's activities, prospects as well as to communicate their expectations and concerns to the Directors.

Accounts And Audit

Financial Reporting

The Board aims to present to the shareholders, stakeholders and the investors a balanced, clear and easy to understand statement of the Group's financial position and prospects in the annual reports and the interim results announcements. The annual reports and the interim results announcements are prepared in accordance with the requirements of the Companies Act, 1965, the Kuala Lumpur Stock Exchange Listing Requirements and the standards approved by the Malaysian Accounting Standards Board.

In addition, the Company has adopted the appropriate accounting policies that have been consistently applied in the preparation of its accounting records to present a true and fair view of its financial performances.

Internal Control

The Board has an overall responsibility for maintaining a sound and effective system of internal control to safeguard the shareholders' investments and the Group's assets. The Group has in place a system of internal control designed to meet the Group's needs to manage and mitigate the risks to which the Group is exposed. Shareholders must be cognisant that the system of internal control, by nature, can only provide reasonable but not absolute assurance against loss.

The Board, through the Audit Committee, would continue to review the adequacy and integrity of the Group's internal control including systems for compliance with the appropriate laws, regulations, directives and guidelines.

To assist the Audit Committee in discharging its duties in relation to internal control, the Company has outsourced its internal audit functions to Messrs Deloitte & Touche (formerly known as Deloitte Touche Tohmatsu). The internal auditors report to the Audit Committee who shall determine their remuneration.

The Report of the Audit Committee is separately set out on pages 28 to 30 of this Annual Report while the results of the internal audit review by the Audit Committee are detailed in the Statement of Internal Control set out on pages 26 to 27 of this Annual Report.

Relationship with Auditors

The Group has established a good working relationship with its external auditors through the Audit Committee. The Audit Committee recommends the appointment of the external auditors and approves their remuneration. The appointment of the external auditors is subject to the approval of the shareholders at the annual general meetings. The external auditors report to the Audit Committee on all matters relating to the financial audit of the Group. They are invited to attend the Audit Committee Meetings where necessary.

Statement on Internal Control

Introduction

Pursuant to paragraph 15.27(b) of the Kuala Lumpur Stock Exchange ("KLSE") Listing Requirements, the Board of Directors ("the Board") of Nylex (Malaysia) Berhad ("the Company") is pleased to provide the following statement on the state of internal control of the Company and its subsidiaries ("the Group"), which has been prepared in accordance with the "Statement on Internal Control: Guidance for Directors of Public Listed Companies" issued by the Institute of Internal Auditors Malaysia and as adopted by the KLSE.

The Board's Responsibilities

The Board acknowledges its responsibility for maintaining a sound system of internal controls, and for reviewing its adequacy and integrity throughout the Group in order to safeguard the Group's assets and shareholders' investments. The Group recognises that the review of the effectiveness of the system of internal control is a continuous process designed to manage rather than eliminate the risk of failure to achieve the Group's business objectives. In pursuing these objectives, internal controls can only provide reasonable and not absolute assurance against material misstatement, fraud or losses. It is possible that internal control may be circumvented or overridden. Furthermore, because of changing circumstances and conditions, the effectiveness of an internal control system may vary over time. The rationale of the system of internal controls is to enable the Group to achieve its corporate objectives within an acceptable risk profile and cost and cannot be expected to eliminate all risks.

Key elements of Internal Control

Key elements of internal control that the Board has established in reviewing the adequacy and integrity of the system of internal controls are as follows:

Organisation structure and responsibility levels

The Group has placed competent and responsible personnel to oversee the Group's operating functions. The Group has a well defined management structure with clear lines of accountability and documented delegation of authority that sets out the decisions that need to be taken and the appropriate authority levels for major tenders, major capital expenditure projects, acquisition and disposal of business and other significant transactions that require Board approval.

Investment decisions are delegated to Executive Management in accordance with authority limits. Comprehensive appraisal and monitoring procedures are applied to all major investment decisions.

Control procedures and activities

The Board recognises the importance of ensuring consistent operations throughout the Group. The Group Policies Manual ("GPM") that sets out the policies, procedures and practices is currently being revised to reflect the current operations and structure of the Group and is to be adopted by all subsidiaries within the Group. The GPM sets out the policies and procedures for day-to-day operations and acts as guidance to employees on the necessary tasks to be taken in a given set of circumstances. The GPM will allow tasks to be performed with minimal supervision, as well as specify the relevant authority limits to be complied with by each level of management within the Group.

The Group undertakes a comprehensive business planning and budgeting process each year to establish plans and targets against which performance is monitored on an ongoing basis. During the business planning process, the Group's business objectives, strengths, weaknesses, opportunities, threats and key business risks are identified and action plans are formulated thereon. The business objectives and action plans are reviewed regularly in monthly management meeting throughout the year. In addition, the Group commits utmost importance on safeguarding the Group's assets through assessment of insurance policies annually. The Board also reviewed the risk-based internal audit plan developed by the internal auditors and monitored the efforts taken by management to address the risks and controls issues within the Group as highlighted by the internal auditors. The Group continues its efforts to further enhance its current risk management practices.

Reporting and review

There is a monthly management reporting mechanism in monitoring and reviewing the financial results and forecasts for all subsidiaries within the Group, including monitoring and reporting thereon, of performance against the operating plans and annual budgets. Monthly business meetings among senior management are held to discuss operating and financial issues.

The Group's financial system records business transactions to produce monthly management accounts that allow management to focus on key areas of concern. The quarterly financial reporting of the Group will only be announced after being reviewed by the Audit Committee and approved by the Board.

Internal audit

The Group out-sourced its internal audit function to an independent professional services firm, which performed an independent review of the internal control system of the Group.

Regular internal audits are carried out to review adequacy and integrity of the internal control system of the Group based on the risk-based audit plan that had been reviewed and approved by the Audit Committee. The Audit Committee and Management regularly review the internal audit reports and monitor the status of the implementation of corrective action to address internal control weaknesses noted. The internal auditors advise executive and operational management on areas for improvement and follow-up reviews are conducted to determine the extent to which its recommendations have been implemented.

Conclusion

The Board has reviewed the effectiveness, adequacy and integrity of system of internal control in operation for the financial year ended 31 May 2003. The Board is of the view that there is no significant breakdown or weakness in the Group's system of internal control that may result in material losses incurred by the Group. The Group continues to take the necessary measures to strengthen its internal control system.

Report of Audit Committee

Objectives

The objective of the Audit Committee is to assist the Board of Directors in fulfilling its fiduciary responsibilities relating to internal control, corporate accounting and reporting practices of the Company and its subsidiaries ("Group"). The Audit Committee will endeavour to adopt certain practices aimed at maintaining appropriate standards of responsibility, integrity and accountability to the Company's shareholders thereby to strengthen the confidence of the public in the Group's reported results.

Composition

The members of the Audit Committee during the financial year comprised of:

- 1 Y. Bhg. Dato' Mohd Ismail bin Che Rus
(Chairman, Independent Non-Executive Director)
- 2 Y. Bhg. Dato' Siew Ka Wei
(Member, Group Managing Director)
- 3 Mr Chieng Ing Huong
(Member, Independent Non-Executive Director)

The composition of the Audit Committee complied with the Kuala Lumpur Stock Exchange ("KLSE") Listing Requirements, which required a majority of the Audit Committee members to be composed of Independent Directors, the Chairman of the Audit Committee to be an Independent Director and at least one of the members of the Audit Committee to be a member of the Malaysian Institute of Accountants ("MIA")

Y. Bhg. Dato Mohd Ismail bin Che Rus, the Chairman of the Audit Committee, and Mr Chieng Ing Huong, are Independent Non-Executive Directors. Mr Chieng Ing is a member of MIA.

Terms of Reference

Composition

The Audit Committee shall be appointed by the Board of Directors from amongst its members and shall comprise at least three (3) Directors. The majority of the members of the Audit Committee shall be Independent Non-Executive Directors.

At least one member of the Audit Committee shall be a member of the Malaysian Institute of Accountants or a person approved under Paragraph 15.10(1)(c)(ii) of the KLSE Listing Requirements. No Alternate Director shall be appointed as a member of the Audit Committee.

The Chairman of the Audit Committee shall be elected from amongst the members and he shall be an Independent Director. If a member of the Audit Committee resigns or for any reason ceases to be a member which results in the number of members being less than the required number of three (3), the Board shall within three (3) months of that event, appoint such number of new members as may be required to make up the minimum number of members. All members of the Audit Committee including the Chairman shall hold office until otherwise determined by the Board or until they cease to be a Director of the Company.

The Company Secretary shall be the Secretary of the Audit Committee.

Functions

The Audit Committee shall discharge the following functions:

- 1 Review the following and report the same to the Board of Directors of the Company :
 - i with the external auditors, the audit plan, the scope of work and ascertain that it will meet the needs of the Board, the shareholders and the relevant authorities;
 - ii with the external auditors, their evaluation of the quality, effectiveness and the integrity of the Group's systems of internal control;
 - iii with the external auditors, their audit report including management letter on internal control weaknesses and the management's response thereof;
 - iv the assistance given by the employees of the Company to the external auditors;
 - v the adequacy of the scope, functions and resources of the internal audit functions and that it has the necessary authority to carry out its work;
 - vi the internal audit programme, processes, the results of the internal audit program, processes and 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:
 - (a) changes in or implementation of major accounting policy changes;
 - (b) significant and unusual events;
 - (c) compliance with accounting standards and other legal requirements, and the going concern assumption; and
 - (d) the accuracy and adequacy of the information disclosed;

- viii any related party transactions and conflict of interest situations that may arise within the Group and with any related parties outside the 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;
 - x whether there is a reason (supported by grounds) to believe that the Company's external auditors are not suitable for reappointment;
 - xi nomination of external auditors and to fix their terms of appointment and remuneration; and
 - xii any other matters as directed by the Board of Directors from time to time.
- 2 In discharging the above functions, the Audit Committee shall at the cost of the Company:
- i have the authority to investigate any matter within its terms of reference;
 - ii have the resources which are required to perform its duties;
 - iii have full and unrestricted access to any information pertaining to the Group;
 - iv have direct communication channels with the external auditors and persons carrying out the internal audit function;
 - v be able to obtain independent professional and other advice and to secure the attendance of outsiders with relevant experience and expertise if it considers necessary; and
 - vi be able to convene meeting with the external auditors excluding the attendance of the executive member of the Audit Committee, whenever deemed necessary.

Meeting

The Audit Committee shall meet four (4) times a year although additional meetings may be called at any time upon the request of any members of the Audit Committee, the external auditors or the internal auditors or at the Chairman's discretion. The quorum for each meeting shall be two (2) members, all of whom must be Independent Directors. Agenda shall be sent to all members of the Audit Committee and any other persons who may be required to attend the meeting at least seven (7) days prior to the meeting unless such requirement is waived by the members in the meeting.

Decision of the Audit Committee shall be by majority of votes. In the case of equality of vote, the Chairman, or if he is absent, the Chairman of the meeting elected from amongst the members attending the meeting, shall have a second and casting vote. The Audit Committee may invite other Directors and employees of the Company and its subsidiaries to attend any meeting as it deems fit.

Minutes

Minutes of each meeting, signed by the Chairman of the meeting at which the proceedings were held or by the Chairman of the next succeeding meeting, shall be deemed a correct recording of the proceedings thereat without any further proof of the fact stated thereof. The minutes shall be kept by the Secretary. Copies of the minutes shall be distributed to all members of the Audit Committee and the Board of Directors for information.

Meetings And Attendance

The Audit Committee held five (5) meetings during the financial year. Out of the five (5) meetings held, two (2) were attended with the Group External Auditors, whilst the Internal Auditors attended all the five (5) meetings. The attendance of the Committee members is set out below:

Audit Committee Member	Held	Attended
Y. Bhg. Dato' Mohd Ismail bin Che Rus Chairman, Independent Non-Executive Director	5	5
Y. Bhg. Dato' Siew Ka Wei Member, Group Managing Director	5	4
Chieng Ing Huong Member, Independent Non-Executive Director	5	5

Report of Audit Committee *(continued)*

Internal Audit Function

The Group has appointed Messrs Deloitte & Touche on 25 July 2001 as the Group's Internal Auditors. The Internal Auditors reports to the Audit Committee and indirectly assists the Board of Directors in monitoring and managing risks and internal control.

Among the responsibilities of the Internal Auditors are:

- 1 To assist in reviewing the adequacy, integrity and effectiveness of the Group's internal control system for the Board to make an accurate Statement of Internal Control in the annual report;
- 2 To support the Audit Committee in identifying and evaluating the existing internal control system and consequently to determine the future requirements for internal control system and co-develop a prioritised action plan;
- 3 To perform a risk assessment of the Group to identify the business processes within the Group that internal audit should focus on;
- 4 To allocate audit resources to areas within the Group that provide the management and the Audit Committee with efficient and effective level of audit coverage.

During the year, the Audit Committee approved the internal audit planning memorandum. The scope of internal audit covers the risk assessment and audit planning of all units and operations, including the subsidiaries.

The Group's Internal Auditors adopts a risk-based approach in the planning and conduct of audits. In addition to rendering assistance in evaluating and reporting on the Group's principle business risks, the Internal Auditors also assisted management in ensuring the risk management mechanisms are pro-actively embedded within the existing framework.

Summary of Activities

During the financial year, the Audit Committee carried out the following review:

Financial Results

- The quarterly interim results announcements to ensure adherence to regulatory reporting requirements and appropriate resolution of all accounting matters requiring significant judgment and to make the recommendations to the Board of Directors, to adopt the quarterly interim results announcements.

- The annual audited financial statements with the external auditors prior to submission for the approval of the Board of Directors. The review was, inter-alia, to ensure compliance with provisions of the Companies Act, 1965, the Listing Requirements of the KLSE, the approved accounting standards of the Malaysian Accounting Standard Board ("MASB") and other legal and regulatory requirements.

Internal & External Audit

- Significant risk areas, internal control and financial matters coming to the attention of the external and internal auditors in their course of work.
- Measures being taken to strengthen the existing risk assessment and management processes as appraised by the Internal Auditors.
- The external auditors' audit plan and scope for the Company and the Group, the audit report, significant issues raised and management responses in relation thereto.
- The external and internal auditors' fees and to make recommendations to their reappointment to the Board of Directors.
- Emerging financial reporting issues pursuant to the introduction of new accounting standards by the MASB and additional statutory/regulatory disclosure requirements.

Directors' Responsibilities

Statement on Financial Statement

The Companies Act, 1965 requires the Directors to prepare financial statements for each financial year. The financial statements shall 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 the profit and loss of the Company and of the Group for the financial year.

The Directors are responsible for ensuring that the Company and the Group keep proper accounting records to enable the Company to disclose, with reasonable accuracy and without any material misstatement in the financial statements, the financial position and the profit and loss of the Company and the Group. The Directors are also responsible to ensure that the financial statements comply with the Companies Act, 1965 and the relevant accounting standards.

In preparing the financial statements for the financial year ended 31 May 2003, the Directors have:

- adopted the appropriate accounting policies, which are consistently applied;
- made judgments and estimates that are reasonable and prudent;
- ensured applicable accounting standards have been followed, subject to any material departures which will be disclosed and explained in the financial statements; and
- prepared the financial statements on the assumption that the Company and the Group will operate as a going concern.

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

Five-Year Highlights

	2003	2002	2001*	1999	1998
	RM'000	RM'000	RM'000	RM'000	RM'000
Sales	386,351	365,873	579,395	530,247	543,510
Profit/(loss) from operations	34,634	(1,042)	43,056	26,638	47,603
Profit/(loss) before tax	26,124	(53,274)	(65,837)	17,400	30,375
Profit/(loss) after tax	16,060	(62,943)	(74,689)	24,358	21,523
Effective percentage rate of tax	38.5%	-18.1%	-13.4%	-40.0%	29.1%
Net earnings/(loss) for Nylex Malaysia shareholders	16,756	(62,341)	(75,169)	26,021	20,232
Assets employed					
Fixed assets	126,768	134,131	158,436	231,657	254,640
Investments	8,136	7,313	7,011	4,755	3,580
Other non-current assets	36,453	38,975	64,520	142,713	133,033
Current assets	266,628	275,089	313,170	343,004	358,635
Total assets	437,985	455,508	543,137	722,129	749,888
Financed by					
Share capital	224,488	224,488	224,488	224,488	224,488
Reserves	6,233	9,590	2,647	13,955	16,116
Retained profits	(27,377)	(39,284)	26,290	197,162	189,731
Nylex Malaysia shareholders' interest	203,344	194,794	253,425	435,605	430,335
Minority shareholders' interest	2,476	3,191	3,457	5,278	10,630
Total shareholders' funds and minority interests	205,820	197,985	256,882	440,883	440,965
Non-current liabilities	21,802	28,453	13,539	14,849	18,169
Current liabilities	210,363	229,070	272,716	266,397	290,754
Total funds employed	437,985	455,508	543,137	722,129	749,888
Shareholders' interest					
Earnings/(loss) per share – sen	7.5	(27.8)	(33.5)	12.0	9.0
Dividend per share – sen	3.0	2.0	42.6	10.6	8.6
Net tangible assets per share – sen	74.3	69.4	84.1	133.9	133.1
Employees at year end	1,292	1,364	1,654	2,031	2,035
Depreciation & amortisation	17,187	19,769	32,548	35,823	33,498
Interest	6,615	7,464	12,706	9,263	17,228

* 17 months