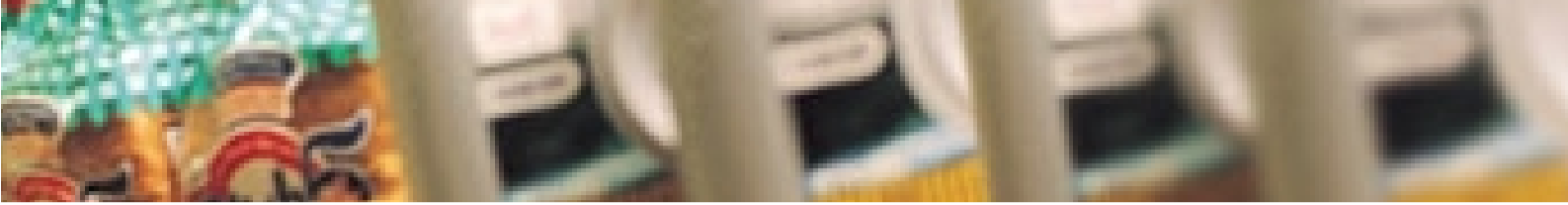


Corporate governance





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Corporate governance statement

COMPLIANCE WITH THE BEST PRACTICES IN CORPORATE GOVERNANCE

The Company's Board of Directors ("The Board") acknowledges that Corporate Governance is a form of self-regulation which is aimed at maximising shareholders' value.

The Board strives to ensure that the best practices in Corporate Governance pursuant to the Malaysian Code on Corporate Governance are adhered to in carrying out its duties and responsibilities.

EFFECTIVE BOARD OF DIRECTORS

The Company has adopted a number of measures to ensure effectiveness of the Board in discharging its duties and responsibilities.

Composition of Board

The Board comprises members with relevant expertise and experiences drawn from business, financial, technical and public service. The wide spectrum of skills and experiences has given them an edge and an added strength in terms of leadership and management, thus ensuring that PETRONAS Dagangan Berhad and its subsidiary ("the Group") is steered and guided by an accountable and competent Board.

The Board comprises eight (8) members. One (1) of whom holds an Executive Office, having a dual role as Managing Director as well as Chief Executive Officer. There are three (3) members who are independent and non-executive and four (4) other non-independent and non-executive members (including the Chairman).

As at the date of this statement, the above statement is reflected as follows:

Executive Director (also the Managing Director)	1/8 (12.5%)
Independent non-executive directors	3/8 (37.5%)
Non-independent non-executive directors (including Chairman)	4/8 (50.0%)

The profile of each director is presented in this Annual Report from pages 12 to 15.

The Board is of the opinion that its current composition and size constitutes an effective Board to the Company.

Role and Responsibilities of Board

The Board practises a clear demarcation of responsibilities whilst maintaining the balance of power and authority. The positions of the Chairman and the Managing Director/Chief Executive Officer are individually held by two persons.

The Chairman is primarily responsible for the orderly conduct and workings of the Board. The Managing Director is responsible for the day to day running of the business, implementation of Board policies and decision-making on operational matters. In managing the business affairs, he is assisted by a Management Committee, which meets once a month.

The non-executive directors have the necessary calibre to ensure that the strategies proposed by the Management are fully deliberated and examined, taking into account the long term interest of the shareholders and other stakeholders. They contribute to the formulation of policy and decision-making through their expertise and experience and are independent of the Management, thereby helping to ensure that no one individual or group dominates the Board's decision-making process.

The presence of the independent non-executive directors is essential as it provides unbiased and independent views, advice and judgement as well as to safeguard the interests of other parties such as minority shareholders and the community. The concept of independence adopted by the Board is in accordance with the definition in Section 1.01 of Listing Requirements of Bursa Malaysia Securities Berhad ("Bursa Malaysia").

The role and responsibilities of the Board are, inter alia, as follows:

- to discuss and critically examine strategies proposed by the Management taking into account the long term interest of the shareholders as well as other stakeholders.
- to contribute to the formulation of policy and decision-making through the Board's accumulated expertise and experience.
- to identify principal risks and ensure that these risks are managed in a proper and effective manner.
- to review the integrity and capability of the Company's internal control systems as well as its management information system.
- to oversee and critically review the proper management of the Company's business.
- to review the Company's plans and budget including cash flow forecast for the forthcoming year and financial projections.

Re-election

The Company's Articles of Association further provides that at least one third of all directors are subject to retirement by rotation at each Annual General Meeting ("AGM") but shall be eligible for re-election in line with the Listing Requirements of Bursa Malaysia.

Corporate governance statement

Supply of Information to the Board

The Board members are supplied with required and timely information which allows them to discharge their responsibilities effectively and efficiently. Prior to each Board meeting, every director is given an agenda and a set of Board papers for each agenda item to be deliberated.

Information provided to the Board goes beyond the quantitative performance data as it includes qualitative performances for the directors to obtain a holistic view on the issues deliberated. All directors are entitled to call for additional clarification and information to be furnished to them for the purpose of assisting them in their decision making. In addition, in arriving at any decision recommended by the Management a thorough deliberation and discussion by the Board is a prerequisite.

The Board is also updated by the Company Secretaries on new statutory and regulatory requirements concerning their duties and responsibilities as and when necessary. All directors have access to the advice and services of the Company Secretaries and where independent professional advice is required, external independent experts are engaged at the Group's expense to facilitate their decision making.

YBhg Dato' Chew Kong Seng has been identified and appointed as the Senior Independent Non-Executive Director, to whom any concerns pertaining to the Company may be conveyed.

Attendance at Board Meetings

During the financial year under review, the Board met five (5) times, the details being as follows:

(a) Number of Board meetings:

No.	Date	Total Board Members	Attendance by Board Members		
			Executive Director	Independent	Non-independent
1.	26.05.2003	8	1	3	3
2.	21.08.2003	8	1	3	4
3.	20.11.2003	8	1	3	4
4.	14.01.2003	8	1	3	2
5.	27.02.2003	8	1	3	3

(b) Detail of attendance by principal Board members:

No.	Name of Board Member	Total Meetings Attended by Board Members
1.	Tan Sri Dato Sri Mohd Hassan bin Marican	3 / 5
2.	Ibrahim bin Marsidi	5 / 5
3.	Datuk Anuar bin Ahmad	5 / 5
4.	Datuk Ishak bin Imam Abas	5 / 5
5.	Dato' Kamaruddin bin Mohd Jamal	5 / 5
6.	Dato' Chew Kong Seng	5 / 5
7.	Dr. R. Thillainathan	5 / 5
8.	Ainon Marziah bt Wahi	3 / 5

The above meetings were held in the Meeting Room located at Tower 1, PETRONAS Twin Towers, Kuala Lumpur City Centre, 50088 Kuala Lumpur.

Training

In compliance with the Listing Requirements of Bursa Malaysia, all members of the Board have attended the required mandatory accreditation training programme.

Further, as an integral part of orientation and education programme for new Directors, the Management provides them with a comprehensive understanding of the operations of the Group through briefings on its history, financial control systems, including site visits.

All Directors shall receive further training that may be required from time to time to keep them abreast with the current developments of the industry as well as the current changes in laws and regulations where appropriate.

Directors Fees

With the exception of the Managing Director, all non-executive directors are paid directors fees which are subsequently approved by the shareholders at the AGM based on the recommendations of the Board. For the year of review, breakdown of fees received by each director is as listed:

Corporate governance statement

Details of Directors Fees

Name of Directors	Directors Fees (RM)	BAC Fees (RM)	Total (RM)
Tan Sri Dato Sri Mohd Hassan bin Marican	60,000	0	60,000
Ibrahim bin Marsidi	0	0	0
Datuk Anuar bin Ahmad	36,000	0	36,000
Datuk Ishak bin Imam Abas	36,000	8,400	44,400
Dato' Kamaruddin bin Mohd Jamal	36,000	0	36,000
Dato' Chew Kong Seng	36,000	12,000	48,000
Dr. R. Thillainathan	36,000	8,400	44,400
Ainon Marziah bt Wahi	36,000	0	36,000
TOTAL	276,000	28,800	304,800

The Managing Director/Chief Executive Officer, an employee of PETRONAS, is seconded to the Company to undertake all responsibilities of an Executive Director who is also the Managing Director. Such arrangement provides higher insights of the holding group's operations, both financial and operational, thus helping to ensure that the Company's performance will be in line with PETRONAS' vision. In consideration for the above service, the Company is required to pay a management fee to cover all payroll related costs and benefits ordinarily incurred by him in the course of his employment. During the year, the Company paid RM735,600 as management fee.

Pursuant to Article 84 of the Company's Articles of Association, the Company also reimburses reasonable expenses incurred by directors where relevant, in the course of carrying out their duties as directors.

Shareholders and Investors

The Board values its dialogue with both institutional shareholders and private investors and recognises that timely and equal dissemination of relevant information be provided to them.

The AGM is the principal forum of dialogue with the shareholders and also an avenue for the Chairman and Board members to respond personally to all queries and undertake to provide sufficient clarification on issues and concerns raised by the shareholders.

Other than the forum of the AGM the other medium of communication between the Company and shareholders and/or investors are as follows:

- quarterly financial statements and annual reports
- announcements on major developments to the Bursa Malaysia
- the Company's general meetings
- the Company's website at www.mymesra.com.my
- discussions between the Managing Director and the Group's Chief Financial Officer with analysts/investors throughout the year.

Disclosures

The Board is fully committed in providing and presenting a true and fair view of the financial performances and future prospects in the industry. This is provided through the quarterly, half yearly and annual financial statements as well as Annual Report.

The Board also recognises the need to fully disclose to shareholders of all major developments in relation to the Company on a timely basis. In addition to the mandatory disclosures requirement by Bursa Malaysia as well as other corporate disclosures, the Company also maintains a website - www.mymesra.com.my - for access by the public and shareholders.

The Company is committed to providing its shareholders and stakeholders the best services that it could offer. In realising its commitment, a Customer Service Center has been established as a communication link between its shareholders and stakeholders with the Company either by phone, facsimile or e-mail via www.mesralink.com.my.

While the Company endeavours to provide as much information as possible to its shareholders and stakeholders, it must also be wary of the legal and regulatory framework governing the release of material and price-sensitive information. All corporate disclosures take into account the prevailing legislative restrictions and requirements as well as the investors need for timely release of price-sensitive information such as financial performance results and statements, material acquisitions, significant corporate proposals as well as other significant corporate events. In all circumstances, the Group is cautious not to provide undisclosed material information about the Group and continually stresses on the importance of timely and equal dissemination of information to shareholders and stakeholders.

Corporate governance statement

COMMITTEES

In ensuring its effectiveness and realising its responsibilities to its stakeholders generally and specifically to its shareholders, the Board has formed committees to efficiently discharge its duties and responsibilities. These committees, members of which are amongst the members of the Board itself, are delegated with specific powers and responsibilities.

Audit Committee

The Audit Committee is formed to operate within the clearly defined terms of reference as stated in pages 46 to 47 of the Annual Report. This Committee comprises of three (3) members, two (2) of which are independent and non-executive members whilst one (1) is a non-independent and non-executive member. Thus, ensuring the balance of roles and responsibilities within the Audit Committee in overseeing the financial efficiency and effectiveness of the Company within the current financial year. The Chairman of this Committee reports the outcome of Committee meetings to the Board and such reports are incorporated as part of the minutes of the Board meetings.

Further in accordance with prescribed best practices of Corporate Governance, the Audit Committee hereby presents its report in pages 44 to 45 of the Annual Report to the shareholders.

Directors Nomination and Remuneration Committee

In cognisance of the recommendations of the Malaysian Code on Corporate Governance, the Board has decided that the Board as a whole will serve as the Nomination and Remuneration Committee. No smaller committee is recommended as the Company believes that all members must be equally responsible for the duties of such committee as follows:

- to assess and recommend new directors to the Board;
- to review annually the mix of skills and experiences, and other qualities to enable the Board to function completely and efficiently;
- to implement formal appraisal process for the evaluation of the effectiveness of the Board as a whole, the committees and the individual contribution of each Board member; and
- to recommend to the Board the remuneration of all non-executive directors. Individual directors do not participate in the discussion on their own remuneration.

The Board will deliberate on the above during the normal proceedings of the meeting of directors.

ACCOUNTABILITY AND AUDIT

1. Financial Reporting

The Board aims to present a balanced and meaningful assessment of the Group's financial performance, position and prospects, primarily through the annual financial statements, quarterly and half yearly announcement of results to the shareholders as well as the Chairman's statement and review of operations in the Annual Report. The Board is assisted by the Board Audit Committee to oversee the Group's financial reporting processes and the quality of its financial reporting.

The Directors' Responsibility Statement is enclosed in page 47 of the Annual Report.

2. Internal Control

The Board acknowledges its overall responsibility for continuous maintenance of a sound system of internal control to safeguard shareholders' investment and the Group's assets. This principle is further elaborated under Statement on Internal Control by the Directors in pages 42 to 43 of the Annual Report.

3. Relationship with the Auditors

The external auditors, Messrs. KPMG Desa Megat & Co., have continued to report to shareholders of the Company on their opinion which are included as part of the Group's financial reports with respect to their audit on each year's statutory financial statements. In so doing, the Company has established a transparent arrangement with the auditors to meet the auditors' professional requirements. The auditors also highlight to the Board Audit Committee and Board of Directors on matters that require the Board's attention.

A summary of the activities of the Board Audit Committee during the year, including the evaluation of independent audit process, are set out in the Audit Committee Report on pages 44 to 45 of the Annual Report.

Statement on internal control

INTRODUCTION

The Malaysian Code on Corporate Governance requires public listed companies to maintain a sound system of internal controls to safeguard shareholders' investments and the companies' assets. Under the provisions of the Listing Requirements of Bursa Malaysia, paragraph 15.27(b), directors of public listed companies are required to produce a statement on the state of the companies' internal control in their Annual Report.

The Board continues with its commitment to maintain a sound system of internal control throughout PETRONAS Dagangan Berhad and its subsidiary ("Group") and in compliance with Listing Requirements of Bursa Malaysia and the Statement on Internal Control: Guidance for Directors of Public Listed Companies ("Internal Control Guidance"), the Board is pleased to provide the following statement which outlines the nature and scope of internal control of the Group during the year under review.

BOARD RESPONSIBILITY

The Board acknowledges the importance of sound internal controls for good corporate governance. The system of internal control covers, inter alia, risk management and financial, organisational, operational, project and compliance controls. The Board reaffirms its overall responsibility for the Group's systems of internal control, and for reviewing the adequacy and integrity of those systems. It should be noted, however, that such systems are designed to manage, rather than eliminate, risk of failure to achieve corporate objectives. Inherently, it can only provide reasonable and not absolute assurance against material misstatement or loss.

The Group has in place an on-going process for identifying, evaluating, monitoring and managing significant risks that may materially affect the achievement of corporate objectives. This process has been in place throughout the year under review up to the date of this report, and this process is reviewed by the Board and it accords with the Internal Control Guidance.

CONTROL STRUCTURE AND ENVIRONMENT

Furtherance to the Board's commitment to maintain a sound system of internal control, the Board continues to maintain and implement a strong control structure and environment for the proper conduct of the Group's business operations as follows:

- the Board meets at least quarterly and has set a schedule of matters, which is required to be brought to its attention for discussion, thus ensuring that it maintains full and effective

supervision over appropriate controls. The Managing Director leads the presentation of board papers and provides comprehensive explanation of pertinent issues. In arriving at any decision, on recommendation by the Management, a thorough deliberation and discussion by the Board is a prerequisite. In addition, the Board is kept updated on the Group's activities and its operations on a regular basis.

- the Managing Director reports to the Board on significant changes in the business and external environments which affect risks. The General Manager of Finance Services Division provides the Board with quarterly financial information.
- an organisational structure with formally defined lines of responsibility and delegation of authority is in place. A process of hierarchical reporting has been established which provides for a documented and auditable trail of accountability. It highlights policies on occupational health and safety, conservation and preservation of the environment, training and development, equality of opportunity, staff performance and serious misconduct.
- a documented delegation of authority with clear lines of accountability and responsibility serves as a tool of reference in identifying the approving authority for various transactions including matters that require Board's approval.
- the Group performs a comprehensive annual budgeting and forecasting exercise including development of business strategies for the next five years, and the establishment of key performance indicators against which units within the Group can be evaluated. Variances against budget are analysed and reported internally on a monthly basis in Management Committee meetings. On a quarterly basis, the variances are reported to the Board. The Group's strategic direction is also reviewed annually through a rigorous assessment process taking into account changes in market conditions and significant business risks.
- the Accounting Procedure Manuals define the policies and procedures for day-to-day operations and act as guidelines as to the proper measures to be undertaken in a given set of circumstances.
- the Group continues to place emphasis on the Quality Culture Process, embedding the five quality principles below into the daily operations of the Group:
 - Conformance to Requirements
 - Prevention
 - Right Things Right Every Time
 - Price of Non-conformance
 - Proactive Leadership at All Levels

Statement on internal control

RISK MANAGEMENT

The Risk Management Framework in the Company serves to manage and control significant risk exposures inherent in its business operations. The scope of the framework covers the following areas:

- identifying principal risks and ensure the implementation of appropriate risk management framework and guidelines to manage these risks
- reviewing the adequacy and integrity of the Company's internal control systems and management information systems, including systems for compliance with applicable laws, regulations, rules, directive and guidelines.

The Management Committee on 25 February 2003 has appointed a Risk Co-ordinator/Manager who is the focal person responsible for monitoring the effectiveness of the risk management processes and for reporting to the Board.

The Board approved the Company's Risk Management Policy on 26 May 2003.

The essence of the Risk Management Policy Statement is as follows:

- the Company shall adopt an effective and progressive corporate risk management system to identify, analyse, appraise and monitor the ever changing risks facing the Company and to take specific measures to mitigate these risks. Our business decision will reflect an appropriate balance between risk and reward to protect the Company's personnel, business, operations, assets and corporate image.
- the Company is driven by its goal to create and maximize value not only in its core business activities of domestic sales and marketing but also in key supporting activities like finance, operations and logistics. The Company shall objectively manage exposure and risk in all of these areas.
- the Company shall strive for continual improvement in providing the necessary resources, organization, system, training and needed communications to ensure that strengthened risk management is institutionalized in the Company.
- the responsibility for managing risk lies with all managers.

PROGRESS OF RISK MANAGEMENT

The progress of Risk Management in the Company can be summarised as follows:

- the Management adopts a balanced approach by carefully analysing and assessing the risks and opportunities before making any business decision.

- credit risk management is entrusted to the Credit Control Department and the Credit Risk Policy, Framework and Guidelines have been developed for implementation.
- Health, Safety and Environment (HSE) Risk Management Framework and Guidelines are currently being documented.

INTERNAL AUDIT FUNCTION

Internal audits are undertaken to provide independent assessments on the adequacy, efficiency and effectiveness of the Group's internal control systems in the assessment of potential risks exposures in key business processes and in controlling the proper conduct of business within the Group. The Board Audit Committee (BAC) has full and direct access to internal auditors and the BAC receives reports on all audits performed.

The internal audit function of the Group is carried out by PETRONAS Group Internal Audit (GIA), a division in PETRONAS. One of the key objectives of GIA is to assist the Group in accomplishing its goals by bringing a systematic and disciplined approach to evaluating and improving the effectiveness of risk management, control and governance processes within the Group. GIA maintained their impartiality, proficiency and due professional care by having its plans and reports directly under the purview of the BAC.

The internal audit function reviews the internal controls in the key activities of the Group's businesses on the basis of an annual internal audit plan which is presented to the BAC for approval.

The BAC reviews audit reports and directs the Management for necessary corrective actions. The Management is responsible for ensuring that corrective actions are implemented accordingly.

WEAKNESSES IN INTERNAL CONTROLS THAT RESULT IN MATERIAL LOSSES

There were no material losses incurred during the financial year under review as a result of weaknesses of internal control. The Management continues to take measures to strengthen the control environment.

This statement is made in accordance with the resolution of the Board of Directors dated 24 May 2004.

Board audit committee's report

from left to right:

Dr. R. Thillainathan

(Independent non-executive director)

Dato' Chew Kong Seng (Chairman)

(Independent non-executive director)

Datuk Ishak bin Imam Abas

(Non-Independent non-executive director)



The Board Audit Committee ("BAC") is pleased to present the Audit Committee Report for the year ended 31 March 2004 as follows:-

MEMBERSHIP

Pursuant to a Board resolution passed on 3 March 1994, the BAC was formed. Currently, the BAC comprises of three (3) directors, namely:-

- i) Dato' Chew Kong Seng (Chairman)
(Independent non-executive director)
- ii) Dr. R. Thillainathan
(Independent non-executive director)
- iii) Datuk Ishak bin Imam Abas
(Non-Independent non-executive director)

The BAC is governed by the Terms of Reference as stipulated in pages 46 to 47 of the Annual Report. All the requirements under the Terms of Reference were fully complied and the BAC did not see any matter in breach of the Listing Requirements of Bursa Malaysia that warrants reporting to Bursa Malaysia.

SUMMARY OF ACTIVITIES OF THE BAC

During the financial year, the BAC in discharging its duties and functions as an independent entity within the Company, had held four (4) quarterly meetings. By invitation, the Managing Director, Company Secretaries, General Manager of Finance Services Division, external and internal auditors were also present during deliberations which required their inputs and advice.

ATTENDANCE RECORD OF BAC MEMBERS

The following are the details of the BAC meetings held during the financial year:-

(a) Number of meetings

No.	Date	Total BAC members	Attendance by BAC members	
			Independent	Non- independent
1.	26.05.2003	3	2	1
2.	14.08.2003	3	2	1
3.	13.11.2003	3	2	1
4.	18.02.2004	3	2	1

(b) Detail of attendance by individual BAC member:

No.	Name of BAC Member	Total Meetings Attended by BAC Member
1.	Dato' Chew Kong Seng	4
2.	Dr. R. Thillainathan	4
3.	Datuk Ishak bin Imam Abas	4

The following activities were carried out by the BAC during the financial year ended 31 March 2004:-

- i) reviewed the external auditors' scope of work and audit plans for the year. Prior to the audit, representatives from the external auditors, presented their audit strategy and plan.
- ii) reviewed with the external auditors the results of the audit, the audit report and the Management Letter, including the Management's response.
- iii) consideration and recommendation to the Board for approval of the audit fees payable to the external auditors as disclosed in Note 21 of the financial statements.

Board audit committee's report

- iv) reviewed the independence and objectivity of the external auditors and the services provided.
- v) reviewed the internal audit reports, which highlighted the audit issues, recommendations and the Management's response. Discussed with the Management actions taken to improve the system of internal control based on improvement opportunities identified in the internal audit reports.
- vi) reviewed the Annual Report and the audited financial statements of the Group prior to submission to the Board for their consideration and approval. The review was to ensure that the audited financial statements were drawn up in accordance with the provisions of the Companies Act 1965 and the applicable approved accounting standards.
- vii) reviewed the Company's compliance in particular the quarterly and year end financial statements with Listing Requirements of Bursa Malaysia, Malaysian Accounting Standards Board and other relevant legal and regulatory requirements.
- viii) reviewed the quarterly unaudited financial results announcements before recommending them for the Board's approval. The review and discussion were conducted with the General Manager of Finance Services Division.
- ix) reviewed the related party transactions entered into by the Company.
- x) reviewed the extent of the Company's compliance with the provisions set out under the Malaysian Code on Corporate Governance for the purpose of preparing the Corporate Governance Statement and Statement of Internal Control pursuant to Listing Requirements of Bursa Malaysia. Recommended to the Board action plans to address the identified gaps between the Group's existing corporate governance practices and the prescribed corporate governance principles and best practices under the Malaysian Code on Corporate Governance.

INTERNAL AUDIT

The Company has an Internal Audit Function to assist BAC in discharging its duties and responsibilities throughout the financial year under review. The Internal Audit Function of the Group was carried out by the Group Internal Audit Division of PETRONAS, the holding company. They maintained their impartiality, proficiency and due professional care by having their plans and reports directly under the purview of the BAC.

The internal audits were undertaken to provide independent assessments on the adequacy, efficiency and effectiveness of the Group's internal control systems in anticipating potential risks exposures over key business processes within the Company. The BAC also has full access to internal auditors and received reports on all audits performed.

During the financial year, the internal auditors had carried out audits according to the internal audit plan which had been approved by the BAC.

The resulting reports from the audits undertaken were forwarded to the Management for attention and necessary corrective actions as recommended. The Management is responsible for ensuring that corrective actions on reported weaknesses are taken within the required time frame.

Board audit committee's terms of reference

In line with the best practices of Corporate Governance, both the Board and the Management recognises the importance of maintaining and ensuring that the BAC remains an independent entity within the Company. An independent BAC ensures that in performing its duties and functions, the checks and balances within the Board, the Management and the major shareholders are in place, thus safeguarding the interest of public shareholders.

COMPOSITION

The members of the BAC shall be appointed by the Board from amongst their number and shall consist of not less than three (3) members of whom the majority shall be Independent Directors. An Independent Director shall be one who fulfils the requirement as provided in the Listing Requirements of Bursa Malaysia.

At least one (1) member of the BAC:-

- i) must be a member of the Malaysian Institute of Accountants ("MIA"); or
- ii) if he is not a member of the MIA, he must have at least three (3) years working experience and:-
 - a) he must have passed the examinations specified in Part I of the 1st Schedule of the Accountants Act 1967; or
 - b) he must be a member of one of the associations of accountants specified in Part II of the 1st Schedule of the Accountants Act 1967; or
- iii) fulfills such other requirements as prescribed by Bursa Malaysia.

The members of the BAC shall elect a Chairman from amongst their number who shall be an Independent Director.

If a member of the BAC resigns, dies or for any other reason ceases to be a member with the result that the number of members is reduced below 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 three (3) members. No alternate director can be appointed as a member of the BAC.

MEETINGS

- Meetings shall be held not less than three (3) times a year.
- A quorum shall be two (2) members, both being Independent Directors and one (1) of whom shall be the Chairman of the BAC.

- The external auditors have the right to appear and be heard at any meeting of the BAC and shall appear before the BAC when required to do so. As such, the external auditors may request a meeting if they consider it necessary.
- At least once a year, the BAC shall meet with external auditors without any Executive Director present. The Chairman of the BAC shall convene a meeting of the Committee to consider any matter which the external auditors believe should be brought to the attention of the Directors or shareholders.
- The Company Secretaries shall be the Secretary of the BAC.
- The Secretary shall draw up an agenda, which shall be circulated together with the relevant supporting papers, at least one (1) week prior to each meeting to the members of the BAC.

REPORTING PROCEDURES

- The Secretary shall circulate the minutes of meetings to all members of the BAC.
- The Secretary shall ensure that the minutes of the meetings be duly entered in the books provided thereof.

AUTHORITY

The BAC is authorised by the Board to investigate any activity within its Terms of Reference. It is authorised to seek any information it requires from any employee and all employees are directed to cooperate with any request made by the BAC.

The BAC shall have the resources that are required to perform its duties. The BAC can obtain, at the expense of the Group, external legal or other independent professional advice it considers necessary.

DUTIES AND FUNCTIONS

The duties and functions of the BAC are:-

- a) to consider the appointment of the external auditors, the audit fee and any question of resignation or dismissal of the external auditors before making recommendation to the Board;
- b) to discuss with the external auditors before the audit commences on the nature and scope of the audit, and ensure coordination where more than one audit firm is involved;
- c) to review with the Management and the external auditors the quarterly results and year-end financial statements prior to the approval by the Board, focusing particularly on:-
 - any change in accounting policies and practices;
 - significant and unusual events;

Board audit committee's terms of reference

- major judgemental areas;
 - significant adjustments resulting from the audit;
 - the going concern assumption;
 - compliance with accounting standards; and
 - compliance with Bursa Malaysia and legal requirements.
- d) to arrange for periodic reports from the Management, the external auditors and the internal auditors to assess the impact of significant regulatory changes, and accounting or reporting developments proposed by accounting and other bodies, or any significant matters that may have a bearing on the annual examination;
- e) to discuss problems and reservations arising from the interim and final audits, and matters the auditors may wish to discuss (in the absence of the Management where necessary);
- f) to review the internal audit programme, consider the major findings of internal audits and the Management's response, and ensure coordination between the internal and external auditors;
- g) to review any related party transactions and conflict of interest situation that may arise in the Company including any transaction, procedure or course of conduct that raises questions of the Management's integrity;
- h) to keep under review the effectiveness of internal control systems and the internal and/or external auditors' evaluation of these systems and in particular review the external auditors' Management Letter and the Management's response;
- i) to review the audit reports;
- j) to direct and where appropriate supervise any special project or investigation considered necessary;
- k) to prepare periodic reports to the Board summarising the work performed in fulfilling the BAC's primary responsibilities; and
- l) to consider other topics, as defined.



DATO' CHEW KONG SENG

Chairman
Board Audit Committee

Statement of directors' responsibility

in relation to the financial statements

The financial statements as set out on pages 50 to 80 of the Group, are properly drawn up so as to give a true and fair view of the state of affairs of the Group as at 31 March 2004 and of the results of its operations and cash flows for the year ended on that date.

The Directors consider that in preparing the financial statements:-

- the Group has used appropriate accounting policies and are consistently applied;
- reasonable and prudent judgements and estimates were made; and
- all applicable approved accounting standards in Malaysia have been followed.

The Directors are also responsible for ensuring that the accounting and other records and registers required by the Companies Act, 1965 to be kept by the Group have been properly kept in accordance with the provisions of the said Act.

The Directors also have general responsibilities for taking such steps that are reasonably available to them to safeguard the assets of the Group, and to prevent and detect fraud and other irregularities.



PETRONAS Quay, Langkawi