



Corporate Governance

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World Class Quality

Among the uses of sales gas is for the air-conditioning system of the nation's landmarks. A performance-driven culture is essential in meeting our customer's requirements.

Corporate Governance Statement

The Board of Directors of PETRONAS Gas Berhad (PGB) recognises that its primary responsibility is to safeguard and promote the interests of the shareholders and to enhance the long-term value of the Company. The Board is fully committed to maintaining high standards of corporate governance to safeguard the interests of the shareholders.

The Board has applied in full the Principles of Corporate Governance and the Best Practices in Corporate Governance as set out in the Malaysian Code on Corporate Governance.

THE BOARD AND BOARD COMMITTEES

The Board of Directors is entrusted with the responsibility to exercise reasonable and proper care of the Company's resources for the best interests of its shareholders and to safeguard the Company's assets. Members of the Board have been selected based on their character, calibre, extensive experience and expertise in a wide range of related and unrelated industries, as well as their ability to add strength to the stewardship of the Company.

The Directors are accountable under the law for the Company's activities, strategy and financial performance. Particular attention is given to ensure that the strategies proposed by the Management of the Company are fully discussed and critically examined by the Directors.

BOARD COMPOSITION

As at the date of this report, the PGB Board comprises the following:

Executive Director (also the Managing Director/ Chief Executive Officer)	1/9	(11.1%)
Independent Non-Executive Directors	3/9	(33.3%)
Non-Independent Non-Executive Directors (including the Chairman)	5/9	(55.6%)

The profile of each Director is presented in this Annual Report on pages 10 to 13.

There is a clear demarcation of responsibilities within the Company to ensure a balance of power and authority. The positions of Chairman and Managing Director are separately

held. The Chairman is primarily responsible for running the Board and ensuring that all Directors have full and timely access to all relevant information necessary for informed decision making. The Managing Director who is also the Chief Executive Officer oversees the implementation of Board policies, the day-to-day running of the business and operational decision-making. The Managing Director/Chief Executive Officer also manages the respective responsibilities of the divisions and departments in the Company and he is assisted in the management of the business by the Management Committee, which he consults regularly.

All Non-Executive Directors have the necessary expertise and skill to ensure that the strategies proposed by the Management are fully evaluated, taking into account the long-term interests of the shareholders. In addition, they contribute to policy formulation and are actively involved in decision making. They provide guidance and promote professionalism and competence among Management and employees.

The presence of the Independent Non-Executive Directors is essential in providing unbiased and independent views, advice and judgement as well as safeguarding the interests of other parties such as minority shareholders of the Company. The concept of independence adopted by the Board is in accordance with the definition of an Independent Director in Paragraph 1.01 of the Bursa Malaysia Listing Requirements. Each new Director is given a comprehensive understanding of the operations of the Company through regular briefings on Company history and financial control systems. In addition, plant visits are also arranged to ensure first-hand understanding of the Company's operations.

Dato' Sadasivan s/o N.N. Pillay has been identified and appointed as the Senior Independent Non-Executive Director to whom any concerns pertaining to the Company may be conveyed.

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

ATTENDANCE AT BOARD MEETINGS

Board meetings are held at quarterly intervals with additional meetings held whenever necessary. The Board met four (4) times during the year under review. All Directors attended more than 50% of Board meetings.

CORPORATE GOVERNANCE STATEMENT

The meeting attendance record of the Directors are as follows:

Table 1: Attendance Record

Name of Directors	Attendance
Tan Sri Dato Sri Mohd Hassan bin Marican	3/4
Wan Zulkiflee bin Wan Ariffin	4/4
Dato' Sadasivan s/o N. N. Pillay	3/4
Dato' Chew Kong Seng	4/4
Datuk Mohd Zain bin Haji Abdul Majid	4/4
Muri bin Muhammad	3/4
Datuk Abdul Rahim bin Haji Hashim	3/4
Mohammed Azhar bin Osman Khairuddin	4/4
Abd Hamid bin Ibrahim	4/4

PROVIDING INFORMATION TO THE BOARD

The Board may, whenever required, as provided by the Articles of Association, set up Board Committees delegated with specific powers and responsibilities.

Prior to Board meetings, every Director is given an agenda and a set of Board papers covering the agenda items to facilitate informed decision-making. The Managing Director/Chief Executive Officer leads the presentation of Board papers and provides comprehensive explanation on pertinent issues. All proceedings of Board meetings are minuted and signed by the Chairman of the meeting in accordance with the provisions of Companies Act 1965.

The Board is kept updated on the Company's activities and operations on a regular basis. All Directors have full access to information, including monthly reports on Company's activities, both financial and operational, via the Company's intranet or in hard copy.

In addition, whenever independent professional advice is required by the Directors, outside experts may, and have been engaged at the Company's expense.

The Directors have access to the advice and services of the Company Secretaries, whose appointments and resignations are subject to the Board's approval.

The Board is fully aware of, and acts on any matters for decision to ensure proper direction and control of the Company. Such matters, outlined in the Company's Limits of Authority, clearly establish the authority of the Board and the Management.

AUDIT COMMITTEE

The Audit Committee has specific terms of reference including the review of the interim and full year financial statements and preliminary announcements, internal financial controls and the reports of the Group Internal Audit Division of PETRONAS. It ensures the adequacy and integrity of the Company's internal control system and management information system and that they are in compliance with the Company's policies and procedures, applicable laws and regulations and Bursa Malaysia Listing Requirements. Following the adoption of the Company's Risk Management Policy, the Audit Committee monitors the effective implementation of programmes to ensure compliance to the policy. It will continue to ensure that the principal risks facing the Company are identified and monitored and appropriate measures are undertaken to manage these risks.

FINANCIAL CONTROL

For each financial year, the Board will, in advance, approve the Company's Plans and Budget including cash flow forecast for the year and projections for the four (4) subsequent years, preparation of which is one of the key responsibilities of the Managing Director/Chief Executive Officer. These are prepared by the respective operating units and support services units and reviewed by the Company's Management Committee before submission for the Board's approval. The Company's business performance results are reviewed periodically by both the Management and the Board. Results are reported to the Board on a quarterly basis together with an in-depth explanation and analysis of variances to the budget by the Managing Director/Chief Executive Officer.

DIRECTORS' NOMINATION AND REMUNERATION

The Board as a whole serves as the Remuneration and Nomination Committee. No smaller committee is recommended as the Company believes that all members must be equally responsible for the duties of such a committee, stated as follows:

- to assess and recommend new Directors to the Board;
- to review annually the mix of skills and experience, and other qualities to enable the Board to function completely and efficiently;
- to implement a 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;
- to recommend to the Board the remuneration of all Non-Executive Directors; individual Directors do not participate in the discussion relating to their own remuneration.

CORPORATE GOVERNANCE STATEMENT

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

With the exception of the Managing Director/Chief Executive Officer, all Non-Executive Directors are paid Directors' fees as approved by the shareholders at the Annual General Meeting, based on the recommendation of the Board. For the year of review, the breakdown of fees received by each Director is as follows:

Table 2 : 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	–	60,000
Dato' Sadasivan s/o N. N. Pillay	36,000	12,000	48,000
Dato' Chew Kong Seng	36,000	8,400	44,400
Datuk Mohd Zain bin Haji Abdul Majid	36,000	8,400	44,400
Muri bin Muhammad	36,000	–	36,000
Datuk Abdul Rahim bin Haji Hashim	36,000	–	36,000
Mohammed Azhar bin Osman Khairuddin	36,000	8,400	44,400
Abd Hamid bin Ibrahim	36,000	–	36,000
Total	312,000	37,200	349,200

The Managing Director/Chief Executive Officer, an employee of PETRONAS, is seconded to the Company as an Executive Director. This gives the Board a deeper insight into the Holding Company's operations with greater accountability for the Company's performance, both financial and operational. In consideration of 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 RM736,800 as management fee. The Company also reimburses all reasonable expenses incurred by the Directors, where relevant, in the course of carrying out their duties as Directors.

In addition to the Managing Director/Chief Executive Officer, other Management staff have also been seconded from PETRONAS. Their training and succession planning are aligned to the PETRONAS' Human Resources Division. The Board ensures that only appropriate personnel with the relevant skills and experience are appointed to Management positions of the Company.

DIRECTORS' TRAINING

In compliance with the Bursa Malaysia Listing Requirements, members of the Board have attended the required training programmes accredited by Bursa Malaysia Securities Berhad.

The Directors are mindful that they shall receive appropriate training which may be required from time to time to keep them abreast with the current developments of the industry as well as the new statutory and regulatory requirements.

RELATIONSHIPS WITH SHAREHOLDERS

The Company recognises the importance of timely and equal dissemination of information to shareholders. In this regard, it adheres strictly to the disclosure requirements of the Bursa Malaysia.

The Annual General Meeting (AGM) is a crucial mechanism in shareholders' communication. Shareholders are notified of the meeting and provided with a copy of the Company's Annual Report 21 days before the meeting. At each AGM, the Board presents the progress and performance of the Company and provides shareholders with an opportunity to ask for more information, without limiting the time and types of questions asked, prior to seeking approval by show of hands from members and proxies on the Audited Accounts.

During the meeting, the Chairman and Board members respond to all queries and undertake to provide sufficient clarification on issues and concerns raised by the shareholders. The external auditors are also present to provide their professional and independent clarification on issues and concerns raised by the shareholders. The status of all resolutions proposed at the AGM is submitted to the Bursa Malaysia at the end of the meeting day. A summary of the discussions at the AGM is kept by the Management for future reference.

The Board has ensured that each item of special business included in the notice of the Annual or Extraordinary General Meeting is accompanied by a full explanation of the effects of the proposed resolution.

CORPORATE GOVERNANCE STATEMENT

In providing shareholders with the opportunity to gain first-hand exposure on the Company's operations, visits to its Gas Processing Plants and its Centralised Utility Facilities are organised. Shareholders are given a presentation on the Company's operations and the opportunity for direct dialogue with Management. The Management believes that shareholders, by having a better understanding of the Company's activities, will have a greater sense of belonging to the Company. Such two-way communication increases corporate transparency and helps shareholders take a longer term view of their investment based on a better understanding of the Company's corporate strategy and operations.

Institutional investors and analysts were also given the opportunity to meet with the Management on performance, corporate governance and other matters affecting the shareholders' interests.

In all circumstances, the Company is cautious not to provide undisclosed material information about the Company and continually stresses the importance of timely and equal dissemination of information.

ACCOUNTABILITY AND AUDIT

1. Financial Reporting

The Board aims to present a balanced and understandable assessment of the Company's position and prospects. This also applies to other price-sensitive public reports and reports to regulators. The Directors' responsibility statement is enclosed in page 55 of the Annual Report.


2. Internal Control

The Board continues to maintain a sound system of internal control to safeguard shareholders' investment and the Company's assets. The principle is further elaborated under the Internal Control Statement by the Directors in pages 50 to 51 of the Annual Report.

3. Relationship with the Auditors

The external auditors, Messrs KPMG Desa Megat & Co., have continued to report to members of the Company on their opinions which are included as part of the Company'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. From time to time, the auditors highlight to the Board Audit Committee and the Board of Directors on matters that require the Board's attention. The Report by the Board Audit Committee on the review of audit reports is enclosed in pages 52 and 53 of the Annual Report.

This statement is made in accordance with the resolution of the Board of Directors dated 24 May 2006.



Tan Sri Dato Sri Mohd Hassan bin Marican

Chairman



Wan Zulkiflee bin Wan Ariffin

Managing Director/Chief Executive Officer

24 May 2006

ADDITIONAL COMPLIANCE INFORMATION

1. Non-Audit fees

The amount of non-audit fees paid and payable to the external auditors by the Company for the financial year ended 31 March 2006 was RM430,857 (2005 : RM534,941).

2. Sanctions

During the financial year, there were no sanctions and/or penalties imposed on the Company, directors or management by the relevant regulatory bodies.

3. Material Contracts

There were no material contracts entered into or subsisting between the Company and its Directors/substantial shareholders during the financial year, other than the Gas Processing and Transmission Agreement entered since 1 April 1994 between the Company and its substantial shareholder, Petrolim Nasional Berhad (PETRONAS), for the provision of separating natural gas into its components and storing, transporting and distributing such components thereof for a fee.

The Company had, on 15 June 2005 entered with PETRONAS, an Addendum to the Gas Processing and Transmission Agreement in respect of the revision to the throughput fee structure, for the period from 1 April 2005 to 31 March 2010.

Internal Control Statement

BOARD'S RESPONSIBILITY

The Board of Directors ("the Board") is responsible for maintaining a sound system of internal control to safeguard shareholders' investments and the Company's assets and for reviewing the adequacy and integrity of the system. In view of the limitations that are inherent in any system of internal control, this system is designed to manage, rather than eliminate, the risk of failure of achieving the corporate objectives. Accordingly, it can only provide reasonable but not absolute assurance against material misstatement or losses. The system of internal control covers, inter alia, risk management and financial, organisational, operational and compliance controls. The Board confirms that there is an on-going process of identifying, evaluating and managing all significant risks faced by the Company, that has been in place for the year and up to the date of approval of the Annual Report and Financial Statements, and that this process is regularly reviewed by the Board so as to be in accordance with the Internal Control Guidance.

CURRENT RISK MANAGEMENT FRAMEWORK

Risk management is firmly embedded in the Company's management system. It is the Company's policy to 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 the risks.

Risk Management Department (RMD) continues to identify, analyse, appraise and monitor risks facing the Company. RMD provides quarterly updates to the Board Audit Committee on the Company's Risk Profiling status. Detailed risk events identified are discussed, highlighted and approved by the Board together with the appropriate measures, efforts and control. This has resulted in various improvements and mitigations carried out to reduce the likelihood of certain risk events occurring.

During the year, the Company launched its Disaster Management Manual (DMM), which was subsequently incorporated into the Company's Quality Management Document System. The DMM was developed to ensure that any interruptions to the Company's operations will be effectively managed.

The Company continues to carry out Projects and Contractors risk assessments on its critical projects. Reports are presented to the Board Audit Committee together with the mitigation plans to reduce risk exposure identified. In addition, during the year, the Company conducted a workshop to identify lessons learnt from previous projects with regards to risk management. To reduce its credit risk exposure, the Company continues to utilise PETRONAS' Credit Risk Rating System to be in line with the credit assessment process adopted by the PETRONAS Group of Companies. The system evaluates the credit worthiness and assigns credit risk ratings to all customers external to the Group. Reviews are then conducted to confirm the assigned credit risk rating of these customers. During the year, the Company conducted such reviews on all customers external to the Group.

Prior to the signing of the Gas Processing Transmission Agreement (GPTA), the Company conducted risk assessment reviews on the implementation of the GPTA terms. As a result, the required mitigation and alternative actions have been identified and will be monitored to ensure effective implementation.

During the year, risk management awareness sessions were conducted at 14 locations to reinforce the importance of risk management to all employees. In addition, the Company conducted sharing sessions with Gas Business Unit of PETRONAS and MISC Berhad on Risk Monitoring System (RMS).

MOVING FORWARD

The Company continues to incorporate risk management practices within its business processes and activities. The Company will continue to conduct periodic review of its business processes and activities to assess the effectiveness of its risk management practices. The Company will continue to conduct relevant Risk Management training for employees to ensure full understanding and commitment on risk management processes.

INTERNAL AUDIT FUNCTION

The internal audit function of the Company will continue to be outsourced to the Group Internal Audit Division of PETRONAS, the holding company. They maintain their impartiality, proficiency and due professional care by having their plans and reports directly under the purview of the Company's Board Audit Committee.

Internal audits are undertaken to provide independent assessments of the Company's internal control systems, in anticipating potential risk exposures over certain business processes and in controlling the proper conduct of business within the Company. The Board Audit Committee has full access to reports on all audits performed by the internal auditor.

The internal audit function reviews the internal controls of various activities of the Company's businesses based on the annual internal audit plan, which is presented to the Board Audit Committee for approval. The internal audit function adopts a risk-based approach and prepares its audit strategy and plan based on the risk profiles of the operating divisions of the Company.

The resulting reports from the audits undertaken are reviewed by the Board Audit Committee and then forwarded to the Management for attention and necessary corrective action as recommended. The Management is responsible for ensuring that appropriate corrective actions on the reported weaknesses are taken within the required time frame. The Company submits quarterly reports to the Board Audit Committee on outstanding audit issues.

INTERNAL CONTROL STATEMENT

The key activities of the internal audit function are set out in the Audit Committee Report in pages 52 and 53 of the Annual Report.

OTHER RISKS CONTROL PROCESSES

Apart from risk management and internal audit, the Board has the following control processes in place:

- The Board meets at least quarterly in order to maintain full and effective supervision. The Managing Director/Chief Executive Officer will lead the presentation of Board Papers and provide comprehensive explanation of pertinent issues. In arriving at any decision, on recommendations by the Management, a thorough deliberation and discussion by the Board is a prerequisite. In addition, the Board is kept updated on the Company's activities and its operations on a regular basis.
- The Board reviews any significant issues arising from changes in business environment, which result in significant risks to the Company. The General Manager of the Finance Division provides the Board with quarterly financial information. These include, amongst others, the monitoring of results against budget, with major variances being followed up and Management action taken, where necessary. Where areas for improvement in the system are identified, the Board considers the views and recommendations made by the Board Audit Committee and Management.
- A documented delegation of authority with clear lines of accountability and responsibility. It sets out the decisions that need to be taken and the appropriate approving authority at various levels of Management including matters that require Board approval. During the year, the Board approved certain revisions to the LOA to reflect organisational realignment and improvements to business processes.
- An organisational structure, as set out in page 7 of the Annual Report, with formally defined lines of responsibility and delegation of authority. A process of hierarchical reporting has been established which provides a documented and auditable trail of accountability.
- During the year, the Systems and Control Section of Finance Division had conducted attestation audits on the Company's accounts payable activities. The attestation audits were carried out to provide assurance to the Management on the Company's compliance to policies and guidelines and on the integrity of records and financial information. A report had been presented to the Management Committee highlighting significant findings and the agreed corrective actions.
- Tender Committees structure with defined level of responsibilities has been established to review all major contracts, both capital and operational. Subsequent to the review by the relevant tender committees, the contract will be subject to approval by the relevant approving authority who is independent from the tender committees. Tenders are called for and are awarded based on factors such as capability, quality, track record, speed of delivery and cost.

- Internal control procedures are documented in standard operating procedures manuals with established guidelines on business planning, capital expenditure, financial operations, performance reporting, human resource and health, safety and environment.

The Five Quality Principles, which are:

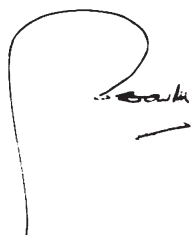
- Conformance to Requirements
- Prevention
- Right Things Right Every Time
- Price of Nonconformance
- Proactive Leadership at All Levels

continue to be inculcated within the Company's Quality Culture with strong emphasis on risk assessment and prevention.

WEAKNESSES IN INTERNAL CONTROL THAT RESULT IN MATERIAL LOSSES

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

This statement is made in accordance with the resolution of the Board of Directors.



Tan Sri Dato Sri Mohd Hassan bin Marican
Chairman



Wan Zulkiflee bin Wan Ariffin
Managing Director/Chief Executive Officer

24 May 2006

Audit Committee Report



Standing left to right

Mohammed Azhar bin Osman Khairuddin

Datuk Mohd Zain bin Haji Abdul Majid

Seated left to right

Dato' Chew Kong Seng

Dato' Sadasivan s/o N.N Pillay

The Board Audit Committee (BAC) of PETRONAS Gas Berhad is pleased to present the Audit Committee Report for the year ended 31 March 2006.

MEMBERSHIP

The BAC was formed by the Board pursuant to its meeting on 14 August 1995. Currently the BAC comprises four (4) directors as follows:-

1. Dato' Sadasivan s/o N.N. Pillay - Chairman
(Independent Non-Executive Director)
2. Dato' Chew Kong Seng
(Independent Non-Executive Director, member of the Malaysian Institute of Accountants)
3. Datuk Mohd Zain bin Haji Abdul Majid
(Independent Non-Executive Director)
4. Mohammed Azhar bin Osman Khairuddin
(Non-Independent Non-Executive Director)

The BAC is governed by the Terms of Reference as stipulated in pages 54 and 55 of the Annual Report. All the requirements under the Terms of Reference were fully complied with and the BAC did not see any matters in breach of the Listing Requirements of the Bursa Malaysia that warrant reporting to Bursa Malaysia.

SUMMARY OF ACTIVITIES OF THE BAC

During the year, the BAC met four (4) times. By invitation, the Managing Director, the Company Secretary and the General Manager of Finance Division were present at all the meetings. External and internal auditors were also present during deliberations which required their inputs and advice.

Meeting attendance record of the members is as follows:

Name of Directors	Attendance
Dato' Sadasivan s/o N. N. Pillay	4/4
Dato' Chew Kong Seng	4/4
Datuk Mohd Zain bin Haji Abdul Majid	4/4
Mohammed Azhar bin Osman Khairuddin	4/4

The following activities were carried out by the BAC during the financial year ended 31 March 2006:-

1. Reviewed the annual internal audit plan for the year including its scope, basis of assessments and risk ratings of the proposed areas of audit.
2. Reviewed and deliberated on reports of audits conducted by the Group Internal Audit Division of PETRONAS.
3. Reviewed financial statements including quarterly financial announcements to the Bursa Malaysia and year end financial statements and recommended the same for approval by the Board of Directors, upon being satisfied that, inter alia, the financial reporting and disclosure requirements of the relevant authorities had been complied with. Any significant issues resulting from the audit of the financial statements by the external auditors were also deliberated.

4. Reviewed potential impact to the Company's financial statements arising from the introduction of new and revised Financial Reporting Standard ("FRS") effective 1 January 2006.
5. Reviewed the adequacy of the internal control system.
6. Reviewed the appointment of external auditors and their remuneration thereof.
7. Reviewed with the external auditors the audit strategy and scope for the statutory audit of the Company's accounts for the financial year ended 31 March 2006.

INTERNAL AUDIT

The internal audit function of the Company was carried out by the Group Internal Audit Division of PETRONAS, the holding company. They maintained at all times 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 Company's internal control systems in anticipating potential risks exposures over key business processes within the Company. The BAC had full access to internal auditors and received reports on all audits performed.

During the year, the internal auditors had carried out audits according to the internal audit plan which had been approved by the BAC. Internal audits were done on:-

- Gas Processing Plant 4 turnaround activities, providing assurance that adequate and effective internal controls are in place and adherence to policies and guidelines and relevant regulations. The audit scope includes review of turnaround management structure, contract management and asset management.

- User profiles review for SAP applications comprising PETRONAS Integrated Financial System (PIFS), the Materials and Maintenance Management System (MMM) and Sales & Distribution (S&D) modules. The objectives are to provide assurance that the profiles are properly assigned, segregation of duties are properly maintained, and policies and procedures are adequate to safeguard against unauthorised access to company's data.
- Finance activities relating to fund management, product costing, budgetary controls and financial services at Plant Operations Division, Transmission Operations Division and Head Office. The objectives are to provide assurance on the adequacy and effectiveness of internal controls, integrity and reliability of financial records and compliance to policies and guidelines.
- Centralised Utility Facilities plant operations and maintenance activities, looking into the effectiveness of the relevant organisational structure, reporting system and review process, adherence to relevant policies and procedures and compliance to relevant statutory requirements. The objectives are to provide assurance on the adequacy and effectiveness of internal controls and timely and reliable management information and reporting system.

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.



Dato' Sadasivan s/o N.N Pillay

Chairman
Board Audit Committee

24 May 2006

Board Audit Committee's Terms of Reference

CONSTITUTION

The Audit Committee was formed by the Board pursuant to its meeting on 14 August 1995.

MEMBERSHIP

- The members of the Audit Committee shall be appointed by the Board from amongst their number and shall consist of not less than three members of whom a majority shall be Independent Directors. Independent Director shall be one who fulfills the requirement as provided in the Bursa Malaysia Listing Requirements.
- At least one member of the Audit Committee must be a member of the Malaysian Institute of Accountants or must have at least three years working experience and passed the examinations specified in Part I of the 1st Schedule of the Accountants Act 1967; or must have at least three years working experience and is a member of one of the associations of accountants specified in Part II of the 1st Schedule of the Accountants Act 1967.
- The members of the Audit Committee shall elect a Chairman from amongst their number who shall be an Independent Director.
- If a member of the Audit Committee resigns, dies or for any other reason ceases to be a member with the result that the number of members is reduced below three, the Board shall within three months of that event, appoint such number of new members as may be required to make up the minimum number of three members.
- No alternate director can be appointed as a member of the Audit Committee.

MEETING

- A quorum shall be two members, both being Independent Directors and one of whom shall be the Chairman of the Audit Committee. At least once a year the Audit Committee shall meet with the External Auditors without any Executive Director present. The External Auditor has the right to appear and be heard at any meeting of the Audit Committee and shall appear before the Committee when required to do so by the Audit Committee.
- The Company Secretary shall be the Secretary of the Audit Committee. Minutes of the meetings shall be duly entered in the books provided therefor.

- Meetings shall be held not less than three times a year. The External Auditors may request a meeting if they consider it necessary. The Chairman of the Audit Committee shall convene a meeting of the Committee to consider any matters the External Auditor believes should be brought to the attention of the Directors or Shareholders.

AUTHORITY

- The Audit Committee 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 Audit Committee.
- The Audit Committee is authorised by the Board to obtain outside legal or other independent professional advice and to secure the attendance of outsiders with relevant experience and expertise if it considers this necessary.

DUTIES AND FUNCTIONS

The duties and functions of the Audit Committee shall be:-

- To consider the appointment of the External Auditors, the audit fees, and any question of resignation or dismissal of the External Auditors before making recommendation to the Board;
- To discuss with the External Auditors, before the audit commences, the nature and scope of the audit, and ensure coordination where more than one audit firm is involved;
- 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
 - major judgmental areas
 - significant adjustments resulting from the audit
 - the going concern assumption
 - compliance with accounting standards
 - compliance with stock exchange and legal requirements
- To arrange for periodic reports from 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 matter that may have a bearing on the annual examination;

BOARD AUDIT COMMITTEE'S TERMS OF REFERENCE

- | | |
|--|--|
| <p>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 Management where necessary);</p> <p>f) To review the internal audit programme, consider the major findings of internal audits and Management's responses, and ensure coordination between the Internal and External Auditors;</p> <p>g) To review any related party transaction and conflict of interest situation that may arise in the Company including any transaction, procedure or course of conduct that raises questions of management integrity;</p> <p>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 Management's responses;</p> | <p>i) To review the audit reports;</p> <p>j) To direct and where appropriate supervise any special project or investigation considered necessary;</p> <p>k) To prepare periodic reports to the Board of Directors summarising the work performed in fulfilling the Audit Committee's primary responsibilities; and</p> <p>l) To consider other topics, as defined.</p> |
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REPORTING PROCEDURES

The Secretary shall circulate the minutes of meetings of the Audit Committee to all members of the Board.

Statement of Directors' Responsibility

in relation to the Financial Statements

The financial statements as set out on pages 74 to 100 of the Company, are properly drawn up so as to give a true and fair view of the state of affairs of the Company as at 31 March 2006 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 Company 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 retained by the Company 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 Company, and to prevent and detect fraud and other irregularities.