

Audit Committee Report

MEMBERSHIP AND MEETINGS

The Audit Committee presently comprises four Non-Executive Directors, three of whom are Independent Directors. Its Composition and Terms of Reference are set out below.

The Audit Committee held six meetings during the financial year, which were attended by all members. All of those meetings were held in the presence of the Executive Directors and Senior Management except for one meeting which was separately held with the Group's External Auditors. The External Auditors attended all meetings during the financial year.

SUMMARY OF ACTIVITIES

The Audit Committee has discharged its duties as set out in its Terms of Reference. The major areas reviewed by the Audit Committee are as follows:

- Review of Quarterly Reports and the Annual Report to ensure adherence to legal and regulatory reporting requirements and appropriate resolution of all accounting matters requiring significant judgement.
- Significant risk areas, internal control and financial matters coming to the attention of the external and internal auditors in the course of their work.
- Related party transactions which are required to be transacted at an arms length basis and are not detrimental to the interests of minority shareholders.
- Emerging financial reporting issues pursuant to the introduction of new accounting standards and additional statutory/regulatory disclosure requirements.
- Best Board practices for meeting market expectations and protecting shareholders' interests that were highlighted by the External Auditors.
- Measures being taken to fortify the existing risk assessment and management processes as appraised by the Group Internal Audit Manager.

GROUP INTERNAL AUDIT FUNCTION

The Group has an established, independent, Group Internal Audit function which assists the Audit Committee in monitoring and reporting on risks and internal controls. The Audit Committee has reviewed the strategic and annual audit plans of Group Internal Audit to determine whether the planned audits duly address the risk management, control and governance concerns of the Group. The implementation status of key audit recommendations is continually monitored to obtain assurance that key risk and control concerns are being effectively managed.

Group Internal Audit adopts a risk-based approach to audits, both at activity and entity-wide levels and their evaluations are communicated to both Management and the Audit Committee. All critical activities or operations are reviewed annually by Group Internal Audit. In addition to its assistance in evaluating and reporting on the Group's principal business risks, Group Internal Audit is assisting Management in ensuring that risk management mechanisms are pro-actively embedded within the existing framework.

COMPOSITION

The Audit Committee consists of the following:

Members of the Committee

David Kuok, Chairman	–	Independent Director
Leong Wai Hoong, Member	–	Independent Director
Ooi Boon Leong, Member	–	Non-Executive Director
Datuk Khoo Eng Choo	–	Independent Director (<i>Appointed as a Member on 12 March 2002</i>)

Secretary to the Committee

Siuagamy Ramasamy

Audit Committee Report (cont'd)

TERMS OF REFERENCE

1. Primary purpose

The Committee shall:

- 1.1 Provide assistance to the Board of Directors (the "Board") in fulfilling its fiduciary responsibilities relating to corporate accounting and reporting practices for Tanjong plc (the "Company") and all its subsidiaries (the "Group").
- 1.2 Improve the Group's business efficiency, the quality of the accounting function, the system of internal controls and audit function and strengthen the confidence of the public in the Group's reported results.
- 1.3 Maintain, through regularly scheduled meetings, a direct line of communication between the Board and the External and Internal Auditors.
- 1.4 Enhance the independence of both the External and Internal Auditors' functions through active participation in the audit process.
- 1.5 Strengthen the role of the Independent Directors by giving them a greater depth of knowledge as to the operations of the Company and the Group through their participation in the Committee.
- 1.6 Create a climate of discipline and control which will reduce the opportunity for fraud.
- 1.7 Provide a framework within which the External Auditors can assert their independence in the event of a dispute with management.

2. Membership

- 2.1 The Committee shall be appointed by the Board from amongst their number and shall be composed of not fewer than three (3) members, the majority of whom shall be Independent Directors.
- 2.2 At least one member of the Audit Committee:
 - (a) must be a member of the Malaysian Institute of Accountants; or
 - (b) if he is not a member of the Malaysian Institute of Accountants, he must have at least 3 years' working experience and:
 - (i) he must have passed the examinations specified in Part I of the 1st Schedule of the Accountants Act 1967; or
 - (ii) 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.
- 2.3 The Board must ensure that no alternate Director is appointed as a member of the Audit Committee.
- 2.4 The members of the Committee shall elect a Chairman from amongst their number who shall be an Independent Director.
- 2.5 If a member of the Committee resigns, dies or for any reason ceases to be a member resulting in non-compliance with subparagraphs 2.1 and 2.2 above, with the result that the number of members is reduced to 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.
- 2.6 The appointment of a Committee member terminates when the member ceases to be a Director.

3. Authority and Rights

- 3.1 The Committee wherever necessary and reasonable for the performance of its duties, shall in accordance with the procedure determined by the Board and at the cost of the Company:
 - (a) have authority to investigate any matter within its Terms of Reference;

Audit Committee Report (cont'd)

TERMS OF REFERENCE (cont'd)

3. Authority and Rights (cont'd)

- (b) have the resources which are required to perform its duties;
- (c) have full and unrestricted access to any information pertaining to the Group;
- (d) have direct communication channels with the External Auditors and person(s) carrying out the internal audit function or activity (if any);
- (e) be able to obtain independent professional or other advice and to secure the attendance of outsiders with relevant experience and expertise if it considers this necessary; and
- (f) be able to convene meetings with the External Auditors, excluding the attendance of the executive members of the Group, whenever deemed necessary.

4. Functions and Duties

The Committee shall, amongst others, discharge the following functions:

4.1 Review the following and report the same to the Board of the Company:

- (a) 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 regulatory authorities;
- (b) with the External Auditors, their evaluation of the quality and effectiveness of entire accounting system, the adequacy and the integrity of the internal control system and the efficiency of the Group's operations and efforts and processes taken to reduce the Group's operational risks;
- (c) with the External Auditors, their audit report;
- (d) the assistance given by employees of the Group to the External and Internal Auditors;
- (e) 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 including inter-alia the appointment of Internal Auditors;
- (f) the internal audit programme, processes, the results of the internal audit programme, processes or investigation undertaken and whether or not appropriate action is taken on the recommendations of the internal audit function;
- (g) the quarterly results and annual financial statements prior to the approval by the Board, focusing particularly on:
 - (i) changes in or implementation of major accounting policy changes;
 - (ii) significant and unusual events;
 - (iii) the accuracy and adequacy of the disclosure of information essential to a fair and full presentation of the financial affairs of the Group;
 - (iv) compliance with accounting standards, other statutory and legal requirements and the going concern assumption;
- (h) any related party and inter company transactions and conflict of interest situations that may arise within the Company/Group and any related parties outside the Group including any transaction, procedure or course of conduct that raises questions of management integrity;
- (i) the propriety of accounting policies, principles and practices adopted by the management and accepted by the External Auditors, where alternatives are also acceptable;
- (j) any letter of resignation from the External Auditors of the Company;

Audit Committee Report (cont'd)

TERMS OF REFERENCE (cont'd)

4. Functions and Duties (cont'd)

- (k) whether there is reason (supported by grounds) to believe that the Company's External Auditors are not suitable for re-appointment; and
 - (l) any significant audit findings, reservations, difficulties encountered or material weaknesses reported by the External and Internal Auditors.
- 4.2 Recommend the nomination of a person or persons as External Auditors and the external audit fee.
 - 4.3 Promptly report to the KLSE on any matter reported by it to the Board of the Company which has not been satisfactorily resolved resulting in a breach of the KLSE Listing Requirements.
 - 4.4 Submit to the Board on a periodic basis a Report on the summary of activities of the Audit Committee in the discharge of its functions and duties in respect of each financial quarter and the financial year.
 - 4.5 Carry out any other function that may be mutually agreed upon by the Committee and the Board which would be beneficial to the Company and ensure the effective discharge of the Committee's duties and responsibilities.

5. Meetings

- 5.1 To form a quorum in respect of a meeting of the Committee, the majority of members present must be Independent Directors.
- 5.2 A minimum of four meetings per year are to be planned, although additional meetings may be called at any time at the Audit Committee Chairman's discretion. An agenda shall be sent to all members of the Committee and any other persons who may be required/invited to attend. All meetings to review the quarterly results and annual financial statements, shall be held prior to such quarterly results and annual financial statements being presented to the Board for approval.
- 5.3 Notwithstanding paragraph 5.2 above, upon the request of any member of the Committee, the External Auditors or the Internal Auditors, the Chairman of the Committee shall convene a meeting of the Committee to consider the matters brought to its attention.
- 5.4 In addition to the Committee members, the meeting will normally be attended by representatives of the External Auditors and by the Internal Audit Manager. Any Board members, or any member of Senior Management or any other relevant employee within the Company may be invited to attend as determined by the Audit Committee Chairman.
- 5.5 At least once a year, the Committee shall meet with the External Auditors without any Executive Directors present.
- 5.6 The principal business of these meetings shall be:
 - (a) Meetings with Internal Audit Manager,
 - to review and approve the proposed internal audit plan and programmes;
 - to monitor the implementation of the internal audit plan;
 - to review and approve changes to the internal audit plan;
 - to review and evaluate the effectiveness of the Group's internal audit procedures;
 - to consider the findings of the Internal Auditors, obtain necessary explanations from management where deemed necessary and make recommendations to the Board as appropriate;
 - to ensure that the Internal Audit Department is adequately resourced and has appropriate standing within the Group.

Audit Committee Report (cont'd)

TERMS OF REFERENCE (cont'd)

5. Meetings (cont'd)

- (b) Before the release of the interim financial statements,
 - (i) to review the interim financial statements for adequate and appropriate disclosures;
 - (ii) to discuss the impact of any changes in accounting or financial reporting policies, significant adjustments, significant or unusual transactions and the going concern assumption.
 - (c) Before the commencement of the annual statutory audit,
 - (i) to discuss in general terms the external audit plan to ascertain that adequate tests to verify the accounts and procedures of the Group will be performed and ensure coordination where more than one audit firm is involved;
 - (ii) to discuss any significant problems that may be foreseen;
 - (iii) to discuss the impact of any proposed changes in accounting policies on the financial statements;
 - (iv) to review the fees proposed for the audit work to be performed.
 - (d) After the completion of the annual statutory audit,
 - (i) to review the results and findings of the audit, the adequacy of accounting, financial and operating controls, and to monitor the implementation of any recommendations made;
 - (ii) to review the draft financial statements and the audit report, and any significant adjustments required as a result of the audit, significant or unusual transactions and make the necessary recommendations to the Board for the approval of the accounts;
 - (iii) to review the nature and impact of any changes in accounting policies adopted by the Group during the year;
 - (iv) to review the going concern assumption;
 - (v) to review the External Auditors management letter and management response;
 - (vi) to organise, review and report on any special reviews or investigations deemed necessary by the Board.
- 5.7 The Committee may establish any other regulations or procedures from time to time to govern its affairs and administration.

6. Minutes

- 6.1 The Committee shall cause minutes to be duly entered in the books provided for the purpose of all resolutions and proceedings of all meetings of the Committee. Such minutes shall be signed by the Chairman of the meeting at which the proceedings were held or by the Chairman of the next succeeding meeting and if so signed, shall be conclusive evidence without any further proof of the facts thereon stated.
- 6.2 Minutes of each meeting shall also be distributed to all attendees at the Audit Committee Meeting and the External Auditors.
- 6.3 Detailed minutes of the Committee's meetings will be made available to all Board members. A summary of significant matters and resolutions will be reported to the Board by the Committee.
- 6.4 The books containing the minutes of proceedings of any meeting of the Committee shall be kept by the Company at the principal office of the Company, and shall be open to the inspection of any member of the Committee and the Board.

7. Secretary

The Group Company Secretary shall act as the Secretary to the Committee.