

## 1. MEMBERSHIP AND MEETINGS

The Audit Committee presently comprises three Non-Executive Directors, two of whom are Independent Directors.

Dato' Larry Gan, Chairman (Appointed as Chairman on 20 May 2005)	– Independent Non-Executive Director
Leong Wai Hoong, Member	– Independent Non-Executive Director
Tan Poh Ching, Member	– Non-Executive Director
Datuk Khoo Eng Choo, Chairman (from 25 July 2002 to 31 March 2005)	– Independent Non-Executive Director

The Audit Committee conducted eight meetings during the financial year. The members' attendance is set out separately in the Corporate Governance Statement. The Executive Director, Senior Management, Head of Group Corporate Assurance and External Auditors were in attendance at the meetings where necessary. The Committee had met with the External Auditors separately on two occasions without the presence of Senior Management.

## 2. SUMMARY OF ACTIVITIES

### Condensed Terms of Reference of Audit Committee

The Audit Committee has discharged its duties as detailed in its Terms of Reference which accompany this Report. Under its terms of reference, the Audit Committee:

- Monitors the integrity of the Group's financial statements and any formal announcements relating to the Group's performance, reviews significant financial reporting judgements and related party transactions;
- Reviews the adequacy and effectiveness of the Group's internal control and risk management systems;
- Reviews and monitors the effectiveness of the external audit process and recommends to the Board on the appointment, re-appointment and remuneration of the External Auditors and ensures that an appropriate relationship between the Group and the External Auditors is maintained, including reviews of non-audit services and fees;
- Reviews and monitors the effectiveness of Group Corporate Assurance.

### Major activities undertaken by the Audit Committee for the year under review

#### Group's Financial Statements and Announcements

- Reviewed Quarterly Reports and the Annual Report and supporting data to ensure adherence to the reporting requirements in the UK and in Malaysia as well as the accuracy, completeness and clarity of the disclosures therein.
- Reviewed and evaluated the Report to the Audit Committee by the External Auditors, PricewaterhouseCoopers LLP ("PwC").

#### Group's Internal Control and Risk Management Systems

- Evaluated the reports of Group Corporate Assurance regarding significant risk areas and internal control matters coming to their attention and discussed their findings and recommendations with Senior Management to ensure that appropriate and timely measures had been taken to address these areas.
- Reviewed and discussed the Principal Business Risks Schedule and Risk Map presented by the Group Chief Operating Officer outlining enterprise wide risks, risk treatment measures and the resulting likelihood and impact of these risks crystallising.

#### Related Party Transactions

- Determined the propriety of proposed related party transactions to ensure that they were carried out on fair and reasonable terms that were not more favourable to the related party than those generally available to the public and were not to the detriment of the minority shareholders.

#### External Audit Process

- Discussed and reviewed with PwC, the external audit plan covering the nature, extent and timing of audit work to be performed, emerging financial reporting, risk, control and compliance issues and fees proposed for audit and review work.

# Audit Committee Report

- Reviewed the engagement of PwC in the provision of non-audit services, ensuring that these are in accordance with established policies and procedures.
- Monitored and reviewed the independence and objectivity of PwC, taking into account relevant UK regulatory requirements and prevailing professional and ethical guidance.

#### **Group Corporate Assurance**

- Reviewed the Strategic Review Plan 2006 to 2008 and Audit Plans to assess whether audit priorities were established according to the relative risks and the need for effective corporate governance of the Group. Ensured that Group Corporate Assurance had adequate resources and appropriate authority to effectively discharge its professional responsibilities.

### **3. GROUP CORPORATE ASSURANCE**

Group Corporate Assurance assists the Audit Committee of the Board and Management in the effective discharge of their responsibilities in risk management, internal control and governance, by providing assurance and consulting services designed to add value towards accomplishment of the Group's objectives. The Head of Group Corporate Assurance independently reports to the Audit Committee Chairman as required by the Charter approved by the Audit Committee. It also adopts a risk-based approach to audits, both at activity and entity-wide levels and its evaluations are communicated to both Management and the Audit Committee in a timely manner. All critical activities and operations are reviewed and the implementation status of audit recommendations is monitored and reported to the Audit Committee to assure that key risk and control concerns are being effectively managed.

During the financial year, the major areas of work accomplished by Group Corporate Assurance and reported to the Audit Committee and ultimately to the Board were as follows:

- Developed the Strategic Review Plan encompassing audit coverage of all significant business areas and support services for the years 2006 to 2008.
- Implemented the half yearly audit plans as laid out in the Strategic Review Plan encompassing audit coverage of all significant business areas upon identifying and evaluating the respective risks and control environment.
- Conducted financial, operational and information system audits covering the power generation, numbers forecast, racing totalisator, film exhibition and tropical island resort businesses. The respective operations in the power plants, area offices and information support systems were reviewed and observations were reported to the Audit Committee. The other key Group corporate function reviewed was treasury operation.
- Conducted follow-up work on previous audit recommendations to ensure that appropriate corrective actions were instituted or were in the process of being instituted and updated the Audit Committee on the implementation status of all outstanding recommendations.
- Assisted in the evaluation and reporting of the Group's principal business risks and risk methodology employed and facilitated the process of ensuring that risk mechanisms are pro-actively embedded within the existing risk framework of the Group.

### **TERMS OF REFERENCE OF THE AUDIT COMMITTEE**

#### **1. Membership**

- 1.1 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.
- 1.2 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.
- 1.3 The Board must ensure that no alternate Director is appointed as a member of the Audit Committee.

## **Audit Committee Report (continued)**

- 1.4 The members of the Committee shall elect a Chairman from amongst their number who shall be an Independent Director.
- 1.5 If a member of the Committee resigns, dies or for any reason ceases to be a member resulting in non-compliance with subparagraphs 1.1 and 1.2 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.
- 1.6 The appointment of a Committee member terminates when the member ceases to be a Director.

## 2. Authority and Rights

- 2.1 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;
  - (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.

## 3. Functions and Duties

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

### 3.1 Financial Reporting

- (a) Review 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; inclusive of the propriety of accounting policies, principles and practices adopted by the management and accepted by the External Auditors, where alternatives are also acceptable;
  - (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; and
  - (iv) compliance with accounting standards, other statutory and legal requirements and the going concern assumption.

### 3.2 Internal Control And Risk Management

- (a) Review reports received on the adequacy and effectiveness of the Group's system of internal control and risk management systems.

### 3.3 Related Party Transactions

- (a) Review any related party and inter company transactions and conflict of interest situations that may arise within the Company/Group and any related party transactions outside the Group including any transaction, procedure or course of conduct that raises questions of management integrity.

### 3.4 External Audit

- (a) Review with the External Auditors, the nature, scope and timing of the audit plan and ascertain that it will meet the needs of the Board, the shareholders and regulatory authorities, the audit report and their evaluation of the Group's internal controls, reporting of significant deficiencies and/or material weaknesses, reservations, difficulties encountered and the assistance given by employees of the Group.
- (b) Recommend the audit fee to the Board and pre-approve fees in respect of non-audit services that may be performed by the External Auditors, ensuring that the provision of such services does not impair the independence and objectivity of the external audit firm.

## Audit Committee Report (continued)

- (c) Review and monitor the independence and objectivity of the External Auditors and the effectiveness of the audit process annually, taking into consideration relevant UK professional and regulatory requirements.
- (d) Oversee the process of the appointment and removal of the External Auditors and make appropriate recommendations through the Board to the Shareholders to consider at the Annual General Meeting.

#### 3.5 Internal Audit

- (a) Monitor and review the effectiveness of the Group Corporate Assurance function, its scope, functions, resources; and that it has the necessary authority to carry out its work; including inter-alia, the appointment of internal auditors.
- (b) Review the internal audit programme, processes and the results of the internal audit programme, processes or investigation undertaken and whether or not appropriate action is taken on the recommendations of corporate assurance.

#### 3.6 Reporting Functions And Duties

- (a) 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.
- (b) Promptly report to the Bursa Securities on any matter reported by it to the Board of the Company which has not been satisfactorily resolved resulting in a breach of the Bursa Securities Listing Requirements.

#### 3.7 Other Functions And Duties

- (a) Review the allocation of options in accordance with established allocation criteria as set out in any prevailing bye-laws governing employee or other share option schemes.
- (b) 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.

### 4. Meetings and Minutes

- 4.1 To form a quorum in respect of a meeting of the Committee, the majority of members present must be Independent Directors.
- 4.2 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.
- 4.3 Notwithstanding paragraph 4.2 above, upon the request of any member of the Committee, the External Auditors or the Internal Auditors, the Audit Committee Chairman shall convene a meeting of the Committee to consider the matters brought to its attention.
- 4.4 In addition to the Committee members, the meeting will normally be attended by representatives of the External Auditors and by the Head of Group Corporate Assurance. Any Board members, or any member of Senior Management or any other relevant employee within the Group may be invited to attend as determined by the Audit Committee Chairman.
- 4.5 At least once a year, the Committee shall meet with the External Auditors without the Executive Director and Senior Management being present.
- 4.6 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.
- 4.7 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.
- 4.8 The Committee may establish any regulations or procedures from time to time to govern its meetings, keeping of minutes and its administration.
- 4.9 The Group Company Secretary shall act as the Secretary to the Committee.

## Audit Committee Report (continued)