

## CORPORATE GOVERNANCE STATEMENT

The Board of Directors is committed to ensure that the highest standards of corporate governance are practiced throughout the Group as a fundamental part of discharging its responsibilities to protect and enhance shareholder value and the financial performance of the AIC Group.

Set out below is a statement of how the Group has applied the principle of the Malaysian Code on Corporate Governance.



### SECTION 1 – DIRECTORS

#### The Board Of Directors

An effective Board leads and controls the Group. The Board meets at least four times a year, with additional meetings convened as necessary. All Board members bring an independent judgement to bear on issues of strategy, performance, resources and standards of conduct.

The attendance of the Board meetings by the Directors for year 2004 are as follows: -

Dates of Meeting	Total Directors	Attendance by Directors	
		Executive	Non-Executive
20 February 2004 (Friday)	6	1 (100%)	5 (100%)
01 April 2004 (Thursday)	6	1 (100%)	5 (100%)
24 May 2004 (Thursday)	6	1 (100%)	5 (100%)
13 August 2004 (Friday)	6	1 (100%)	5 (100%)
05 November 2004 (Friday)	6	1 (100%)	5 (100%)

Details of attendance by individual Directors:

Name of Directors	Total Meetings Attended by Directors	Percentage Of Attendance
Haji Mohd Ali bin Bawal	5/5	100%
Mohamad Ariff bin Puteh	5/5	100%
Md Yusof bin Hussin	5/5	100%
Prof Madya Dato' Haji Mohd Mokhtar bin Haji Shafii	5/5	100%
Mamat @ Mohamed bin Hussain	5/5	100%

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The Board has delegated specific responsibilities to three subcommittees, namely Audit Committee, Nomination Committee and Remuneration Committee, the details of which are set out below. These Committees have the authority to examine particular issues and report back to the Board with their recommendations. The ultimate responsibilities for the final decision on all matters, however, lie with the entire Board.

All committees have written terms of reference and procedures, and the Board receives report of their proceedings and deliberations. The Chairman of the various committees will report to the Board on the outcome of the Committee meeting and such reports will be incorporated in the minutes of the full Board Meeting.

Compositions of Sub-Committees are as follows:-

Board members	Audit Committee	Nomination Committee	Remuneration Committee	Share Option Committee
Datuk Haji Sarip bin Hamid		M	M	C
Haji Mohd Ali bin Bawal				
Mohamad Ariff bin Puteh				M
Md Yusof bin Hussin	C	M	C	
Prof Madya Dato' Haji Mohd Mokhtar bin Haji Shafii	M	C	M	
Mamat @ Mohamed bin Hussain	M	M	M	M

Abbreviations:

C : Chairman

M : Member

### Board balance

The Board currently has six members, comprising of the Non-Executive Chairman, an Executive Director, a Non-Independent Non-Executive Director and three Independent Non-Executive Directors. Together, the Directors bring a wide range of business and financial experience relevant to the Group. A brief description of the background of each Director is presented on pages 19 to 21.

Datuk Haji Sarip bin Hamid is the Non - Executive Chairman of the Board while Mohamad Ariff bin Puteh acts as the Executive Director, Group President/Chief Executive Officer. There is a clear division of responsibility between these two roles to ensure balance of power and authority. Encik Md Yusof bin Hussin, the Audit Committee Chairman, is the Senior Independent Non-Executive Director to whom concerns may be conveyed.

The Company considers that its complement of non-executive Directors provide an effective Board with a mix of knowledge and broad business and commercial experience. This balance is particularly important in ensuring that the strategies proposed by the executive management are fully discussed and examined, and take into account of the long term interests of the Company. The Board is satisfied that the current Board composition fairly reflects the investment of minority shareholders in the Company.

### Supply Of Information

All Directors review a Board report prior to the Board meeting. These papers are issued in sufficient time to enable the Directors to obtain further explanations, where necessary, in order to be briefed properly before the meeting. The Board report includes, among others, the following details:

- Minutes of meetings of all Committees of the Board
- Quarterly performance report of the Group
- Major operational and financial issues
- Proposals for senior management appointments
- Legal matters
- Announcements to the Bursa Malaysia Securities Berhad ("Bursa Malaysia")

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In addition, there is a schedule of matters reserved specifically for the Board's decision, including:

- The approval of corporate plans and budgets
- Acquisitions and disposals of assets that are material to the Group
- Major investments
- Changes to management and control structure of the Group, including key policies, procedures and authority limits.

The Board has approved an agreed procedure for Directors to take independent professional advice, if necessary, at the Company's expense. Before incurring such professional fees, the Director concerned must consult with the Chairman of the Board.

All Directors have access to the advice and services of the Company Secretary.

### Appointments To The Board

The Malaysian Code on Corporate Governance endorses, as good practice, a formal procedure for appointments to the Board, with a Nomination Committee making recommendations to the Board. The Code, however, states that this procedure may be performed by the Board as a whole, although, as a matter of best practice, it recommends that these responsibilities be delegated to a committee.

In previous years, all Directors were involved in the process of assessing existing Directors and identifying, recruiting, nominating, appointing and orientating new directors. During the period, the Board applied competency based evaluation to assess the effectiveness and contribution of members and submitted the findings to the Board.

### Nomination Committee

The Nomination Committee which comprise of a Non-Executive Chairman and Independent Non-Executive Directors was set up on 1 August, 2001, its members are as follows:

- Prof. Madya Dato' Haji Mohd Mokhtar bin Haji Shafii (Chairman)
- Datuk Haji Sarip bin Hamid
- Md. Yusof bin Hussin
- Mamat @ Mohamed bin Hussain

In year 2004 the Committee had a total of two meetings, attended by all members, which were held to review the Board's evaluation process, succession planning process and the action plans. The Committee has also reviewed the proposed organisational restructuring for the objectives of operational effectiveness, leadership development and elimination of conflicts of interest.



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The Nomination Committee's terms of reference are as follows:-

### Terms And Reference Of Nomination Committee

1. The duties of the Nomination Committee shall include the following:-
  - 1.1 To determine the criteria for Board membership, including qualities, experience, skills, education and other factors that will best qualify a nominee to serve on the Board.
  - 1.2 To review annually and recommend to the Board the structure, size, balance and composition of the Board and Committees including the required mix of skills and experience, core competencies which Non-Executive Directors should bring to the Board and other qualities to function effectively and efficiently.
  - 1.3 To consider, evaluate and propose to the Board any new Board appointments, whether executive or non-executive positions. In making a recommendation to the Board on the candidate for directorship, the Committee shall have regard to:-
    - 1.3.1 Size, composition, mix of skills, experience, competencies and other qualities of the existing Board, level of commitment, resources and time that the recommended candidate can contribute to the existing Board and Group; and
    - 1.3.2 Best practices of the Malaysian Code on Corporate Governance Part 2 AAll which stipulates that Non-Executive Directors should be persons of calibre, credibility and have the necessary skills and experience to bring independent judgements to bear on issues under consideration by the Board. Independent Non-Executive Directors should make up at least one-third of the membership of the Board.
  - 1.4 To propose to the Board the responsibilities of Non-Executive Directors, including membership and chairmanship of Board Committees.
- 1.5 To evaluate Management's recommendation for the appointment, promotion, transfer, dismissal and scope of duties of senior executive positions, including that of the Managing Director or Chief Executive Officer and Executive Directors.
- 1.6 To evaluate and implement processes for assessing the effectiveness of the Board as a whole, the Committee of the Board and for assessing the contribution of each director.
- 1.7 To ensure the implementation of an annual evaluation process of:-
  - 1.7.1 The effectiveness of each director's ability to contribute to the effectiveness of the Board and the relevant Board committees and to provide the necessary feedback to directors in respect of their performance;
  - 1.7.2 The effectiveness of the Committees of the Board; and
  - 1.7.3 The effectiveness of the Board as a whole.
- 1.8 To recommend to the Board:-
  - 1.8.1 Whether directors who are retiring by rotation should be put forward for re-election; and
  - 1.8.2 Termination of membership of individual directors in accordance with policies or other appropriate reasons.
- 1.9 To evaluate the recommended plans for succession at Board level as well as senior executives and management level.
- 1.10 To ensure adequate training and orientation of new directors with respect to the business, structure and management of the Group as well as the expectations of the Board with regards to their contribution to the Board and the Group.
- 1.11 To consider other matters as referred to the Committee by the Board.

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### Directors' Training

As an integral element of the process of appointing new directors, the Nomination Committee ensures that there is an orientation and education program for new Board members. This is supplemented by visits to key locations and meetings with other key senior executives. Directors also receive further training from time to time, particularly on relevant new laws and regulations and changing commercial risks.



Since 2003, all Directors have attended trainings as part of the Continuing Education Programme ("CEP"). Directors who attended this programme will be given CEP Points for each training. Pursuant to the recent amendments to the listing requirements of Bursa Malaysia on the CEP, which is effective from 1 January 2005, directors are given an extension to accumulate a total minimum of 72 CEP Points by 31 December 2005.

### CEP Points by Directors as at 31 December 2004

Names	CEP Points in 2003	CEP Points in 2004	Total CEP Points
Datuk Haji Sarip bin Hamid	40	48	88
Tuan Haji Mohd Ali bin Bawal	-	80	80
Mohamad Ariff bin Puteh	24	64	88
Md. Yusof bin Hussin	-	80	80
Prof Madya Dato' Haji Mokhtar bin Hj Shafii	32	56	88
Mamat @ Mohamed bin Hussain	32	32	64

### Re-Election

In accordance with the Company's Articles of Association, all Directors who are appointed by the Board are subject to election by shareholders at the first opportunity after their appointment. The Articles also provide that at least one third of the remaining Directors be subject to re-election by rotation at each Annual General Meeting. The following directors are subject to re-election in this forthcoming Annual General Meeting pursuant to Article 101 of the Company's Articles of Association:-

- Datuk Haji Sarip bin Hamid
- Md. Yusof bin Hussin

Directors over seventy years of age are required to submit themselves for re-appointment annually in accordance with Section 129(6) of the Companies Act, 1965.

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### SECTION 2 – DIRECTORS' REMUNERATION

#### Objective Of Directors' Remuneration

The Company has adopted the objective as recommended by the Malaysian Code on Corporate Governance to determine the remuneration for a Director so as to ensure that the Company attracts and retains the Director needed to run the Group successfully. In the case of Executive Director, the component parts of remuneration are structured so as to link rewards to corporate and individual performance. In the case of Non-Executive Directors, the level of remuneration reflects the experience and level of responsibilities undertaken by the particular non-executive director concerned.

#### Remuneration Procedure

The Remuneration Committee recommends to the Board the framework of executive remuneration and its cost, and the remuneration package for the Executive Director. In framing the directors' remuneration policy, the Remuneration Committee consults and receives advice from external consultants. It is the ultimate responsibility of the entire Board to approve the remuneration of the Executive Director.

The determination of the remuneration of the non-executive Directors is a matter for the Board as a whole with individual Directors abstaining from decision in respect of their remuneration.

#### Remuneration Committee

The Remuneration Committee was set up on 1 August 2001 and the members are as follows: -

- Md. Yusof bin Hussin (Chairman)
- Datuk Haji Sarip bin Hamid
- Prof. Madya Dato' Haji Mohd Mokhtar bin Haji Shafii
- Mamat @ Mohamed bin Hussain

This subcommittee of the Board had two meetings in the period, which were attended by all members. Members of this Committee comprises of a Non-Executive Chairman and Independent Non-Executive Directors.

#### Remuneration Package

The remuneration package of Directors is as follows: -

##### (a) Basic Salary

The basic salary (inclusive of statutory employer contributions to the Employee Provident Fund) for the Executive Director is recommended by the Remuneration Committee, taking into account the performance of the individual, the inflation price index and information from independent sources on the rates of salary for similar jobs in a selected group of comparable companies.

##### (b) Fees

The Board determines fees payable to the Non-Executive Chairman and Non-Executive Directors after considering comparable organizations and the level of responsibilities undertaken by the Directors. Such fees are tabled to the shareholders of the Company for approval.

##### (c) Bonus Scheme

The Group operates a bonus scheme for all employees, including the Executive Director. The criterion for the scheme is the level of profit achieved from certain aspects of the Group's business activities against targets, together with an assessment of each individual's performance during the period. Bonus payable to the Executive Director is reviewed by the Remuneration Committee and approved by the Board.

##### (d) Benefits in Kind

Other customary benefits (such as private medical cover, cars) are made available as appropriate.

##### (e) Pension Arrangements

- (i) Contributions are made to the Employees Provident Fund, the national mandatory defined contribution plan, in respect to a Malaysian-resident Executive Director.
- (ii) Gratuity is paid to the Executive Director at the discretion of the Board upon his/her official retirement.

##### (f) Executive Directors' Retirement Age

The normal retirement age for all Executive Directors shall be at the age of fifty five (55) years, unless the Company further requires the service of that Director.

##### (g) Directors' Share Options

The movements in the Directors' share options during the financial year ended 31 December 2004 are set out on page 60.

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### Directors' Remuneration

The details of the remuneration of each Director during the period are as follows:

(a) The number of directors of the Company whose remuneration, retirement gratuity and fees, including fees paid to companies in which Directors have interest, fall in the following band:

	Executive		Non - Executive	
	2004	2003	2004	2003
RM900,000 – RM999,000	-	1	-	-
RM500,000 – RM899,000	-	-	-	-
RM450,000 – RM499,999	1	-	-	-
RM400,000 – RM449,000	-	-	-	-
RM100,000 – RM399,000	-	-	-	1
RM 50,000 – RM 99,999	-	-	-	-
Below RM50,000	-	-	5	4

(b) The aggregate remuneration of directors with categorization into appropriate Components are as follows:

(RM'000)	Executive		Non - Executive	
	2004	2003	2004	2003
Salaries	388	570	-	-
Fees				
- Paid	-	-	-	-
- Provision	26 **	-	102 *** 3 **	95
Meeting allowances				
- Paid/Payable	- 7 **	-	17 2 **	17 -
Bonuses	21 **	56	2 **	-
Benefits-in-kind (based on estimated money value)	8	17	16	32
Retirement Gratuity				
- Paid	-	520 495 *	-	-

\* Provided in 2002 but paid in 2003.

\*\* Approved by shareholders at the AGM of an associate, Nucleus Electronics Ltd.

\*\*\* To be approved by the shareholders at the AGM.

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(c) Details of remuneration, retirement gratuity and fees paid/payable to individual Directors and companies in which Directors have interest for year 2004 is as follows:

(RM ' 000)	Salaries	Bonuses	Fees	Meeting Allowances	Benefits in-kind	Retirement gratuity	Total
<b>Executive Directors</b>							
Mohamad Ariff bin Puteh	388	-	-	-	8	-	396
	-	21 **	26 **	7 **	-	-	54 **
<b>Non-Executive Directors</b>							
Datuk Haji Sarip bin Hamid	-	-	30 *	3	8	-	41
Haji Mohd Ali bin Bawal	-	-	18 *	2	8	-	28
Prof Madya Dato' Haji Mohd Mokhtar bin Haji Shafii	-	-	18 *	4	-	-	22
Mamat @ Mohamed bin Hussain	-	-	18 *	4	-	-	22
Md Yusof bin Hussin	-	-	18 *	4	-	-	22
	-	2 **	3 **	2 **	-	-	7 **

\* To be approved by shareholders at the AGM.

\*\* Approved by shareholders at the AGM of an associate, Nucleus Electronics Ltd.

### SECTION 3 – SHAREHOLDERS

#### Investor Relations

Recognising the need to develop and implement a proactive investor relations programme, regular dialogues and discussions were held between the Chief Executive Officer, Chief Financial Officer and the Head of Corporate Finance and Investor Relations with the analysts, shareholders, investors and fund managers throughout the year. Presentations based on permissible disclosures are given to explain the Group's performance, major developments and significant events of the Group. Formal analysts' briefings were held quarterly, i.e. in March, June, September 2004 and March 2005 after the announcement of the quarterly results of the Group to the Bursa Malaysia. Price sensitive information regarding the Group is, however, not disclosed in these communication sessions until after the prescribed announcement to Bursa Malaysia has been made. The Group has been making timely announcements to the public with regards to the Group's corporate proposals, financial results, other regulatory announcements as well as information which would be of interest to the investors and members of the public.

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The Group has also established a website at [www.aic.com.my](http://www.aic.com.my) for shareholders and the public to access for information related to the Group, including but not limited to corporate information, analysis of shareholdings, top 30 shareholders, financial results and general announcements. Shareholders and members of the public can forward their enquiries to the Company through e-mail via the Group's website or directly to [investor.relations@aic.com.my](mailto:investor.relations@aic.com.my).

### Annual General Meeting

The Annual General Meeting ("AGM") represents the principal forum for dialogue and interaction with all shareholders of the Company. At each AGM, the Board presents the progress and performance of the Group's business and encourages shareholders to participate in the question and answer session. All Directors and senior management as well as the Chairman of the Audit Committee and external auditors are available to respond to the shareholders' questions during the AGM.

### Best Practices in Corporate Disclosure

The Board of Directors have adopted the 'Best Practices in Corporate Disclosure', issued in July 2004 by Bursa Malaysia's Task Force on Corporate Disclosure Best Practices. The Best Practices in Corporate Disclosure was adopted to provide guidance and assistance to move beyond making minimum disclosures in order to comply with the spirit of disclosure obligations and to maintain corporate credibility and investor confidence. With the adoption, the Group strives to improve the quality and form of disclosure and in turn to assist shareholders, analysts, investors and fund managers in making better informed decisions.

## SECTION 4 – ACCOUNTABILITY AND AUDIT

### Financial Reporting

The Board has a responsibility and aims to provide / present a fair, balanced and meaningful assessment of the Group's financial performance and prospects at the end of the financial year, primarily through the annual financial statement, quarterly reports to Bursa Malaysia as well as the Chairman's statement and review of operations in the annual report to the shareholders. The Audit Committee assists the Board in overseeing the Group's financial reporting processes and the quality of its financial reporting.

### Statement Of Directors' Responsibility For Preparing The Financial Statements

The Directors are required by the Companies Act 1965 to prepare financial statements for each financial year which have been made out in accordance with the applicable approved accounting standards and give a true and fair view of the state of affairs of the Group and the Company at the end of the financial year and of the results and cash flows of the Group and of the Company for the financial year then ended.

In preparing the financial statements, the Directors have:

- selected suitable accounting policies and applied them consistently;
- made judgements and estimates that are reasonable and prudent;
- ensured that all applicable accounting standards have been followed; and
- prepared financial statements on the going concern basis as the Directors have a reasonable expectation, having made enquiries, that the Group and the Company have adequate resources to continue in operational existence for the foreseeable future.

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The Directors have responsibility for ensuring that the Company keeps accounting records which disclose with reasonable accuracy of the financial position of the Group and the Company and which enable them to ensure that the financial statements comply with the Companies Act 1965.

The Directors have overall responsibilities for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent other irregularities.

### Internal Control

The Statement on Internal Control presented on pages 38 to 39 provides an overview of the state of internal control within the Group.

The Group's risk management policies are as follows:

- the Group deliberately incurs business risks if the associated rewards are expected to enhance AIC's corporate value;
- risks associated with the core business processes are borne by the Group itself;
- risk tied to resource management processes are reduced within the Group or, where expedient, shifted to third parties (e.g. outsourcing);
- risk that relate neither to core nor resource management processes are not incurred by the Group; and
- actions that are legally dubious, violate the Group's policies and principles, such as human resource principles, financial management procedures and contradict local customs risk, and in particular the Group's reputation, will not be carried out.

### Relationship With The Auditors

The role of the Audit Committee in relation to the external auditors is described on pages 40 to 44. The Company has always maintained a close and transparent relationship with its external auditors in seeking professional advice and ensuring compliance with the accounting standards in Malaysia.

The above statement is made in accordance with the resolution of the Board of Directors dated 12 April 2005.

## STATEMENT ON INTERNAL CONTROL

### Introduction

This Statement on Internal Control by the Board of Directors ("Board") on the Group is made pursuant to Bursa Malaysia Securities Berhad ("Bursa Malaysia") Listing Requirements para 15.27 (b) with regards to the Group's compliance with The Principles and Best Practices provisions relating to internal controls provided in the Malaysian Code on Corporate Governance ("Code"). The Board of Directors is pleased to enclose the statement on internal control of the Group for the financial year under review prepared in accordance with the Statement on Internal Control: Guidance for Directors of Public Listed Companies ("Internal Control Guidance").

### Board's Responsibilities

The Board recognises the importance of sound internal controls and risk management practices towards maintaining good corporate governance. The Board acknowledges its overall responsibility for the Group's system of internal control and risk management which include the establishment of an appropriate control environment and framework as well as reviewing the adequacy, integrity and effectiveness of this system.

While acknowledging their responsibility for the Group's system of internal control, the Directors are aware that such system is designed to manage rather than to eliminate the risk that may impede the Group's business objectives. Accordingly, it should be noted that this system can only provide reasonable but not absolute assurance against material misstatement or loss.

For the purpose of this statement, our associated companies, Jotech Holdings Berhad ("Jotech") which is listed on the Second Board of Bursa Malaysia and Nucleus Electronics Ltd ("Nucleus") which is listed on the Stock Exchange of Singapore Dealing and Automated Quotation System (SGX Sesdaq) have not been dealt with as part of the Group.

The process to review the adequacy and integrity of the system of internal control has been in place during the year and up to the date of approval of the annual report and is subject to review by the Board. The key features of the internal control system are described under the following headings.

### INTERNAL CONTROL AND RISK MANAGEMENT FRAMEWORK

#### Risk Management

The Board supports the Internal Control Guidance and is continuously reviewing the adequacy and effectiveness of the risk management processes.

Management is responsible for the management of risk, for developing, operating and monitoring the system of internal control and for providing assurance to the Board that it has done so in accordance with the policies adopted by the Board. Further independent assurance is provided by the Group Internal Audit Function.

The Group has in place the following:-

- (i) A formal risk policy and guidelines have been established and communicated Group wide;
- (ii) A risk management structure which outlines the lines of reporting and responsibility at the Board, Audit Committee, and management levels have been established;
- (iii) A database of all risks and controls has been created and information filtered to produce a risk register and individual risk profiles for the major operating business units. Key risks to each business unit's objectives aligned with the Group's strategic objectives are identified, scored and categorised to highlight the source of risk, their financial impacts and the likelihood of occurrence;
- (iv) A risk profile and the action plan to address key risk areas were developed at the end of the risk profiling workshops. The database of key risks and controls, action plans pertaining to the risks identified and the risk profile of major operating business units and the Group are monitored and updated through review and discussion with the senior management of the major operating business units and presented to the Board of Directors for strategic planning purposes.

## STATEMENT ON INTERNAL CONTROL

The Board is pleased to highlight that the Group's risk management framework is being applied to all its operating subsidiaries for the period under review except for AIC Display Sdn. Bhd. ("AICD") which commenced its operations on 4 February 2004 and its risk management process is still ongoing.

All the above-mentioned initiatives ensure that the Group has in place a formalised ongoing process for identifying, evaluating, managing and monitoring the significant risks affecting the achievement of its business objectives throughout the period under review and up to the date of approval of the annual report.

### Risk Management as a Control Tool

Our internal control system is aimed at managing business risks that may have undesirable effects on our organisation's ability to achieve business objectives. It also aims to manage business risk that may impede the successful execution of strategies that are aligned with the Group's vision.

The monitoring of control procedures is also supplemented by reviews undertaken by our Internal Audit Function on the controls in operation in each individual business. The Group has in place an internal audit department with part of its function outsourced to an independent external consultant, whereby its primary function is to assure the Board, through the Audit Committee, that the internal control system functions as intended. Further details of the Internal Audit Function are set out on pages 40 to 44 in the Audit Committee's Report.

### Risk Management as a Strategic Tool

We also adopt risk management as a strategic tool in strategy formulation, and in our investment and resource allocation processes. For instance, our strategy formulation process is closely aligned to addressing principal risks and probable emerging risks, as well as pursuing potential opportunities that could arise therefrom. Following a 2 day Strategic Meeting in July 2003 whereby the Group's Strategic Plan was reviewed, the Board of Directors and Senior Management had in August 2004, reevaluated the Strategic Plan based on the Group's Risk Profile. The implementation of the strategies and the transformation needs are monitored by the Board of Directors vis-à-vis the Group's changing risk profile, risk policies, risk appetite and risk direction.

## BUDGETING AND CONTROL FRAMEWORK

### Budgeting

There is a budgeting process where an annual budget would be prepared, reviewed and approved by the subsidiaries' boards each year. The budgets are then subject to review at a meeting chaired by the Group President/Chief Executive Officer. The Group Budget is then presented to the Board for approval.

### Control environment

To ensure the effectiveness of the internal control framework and its continuity, the Group maintains a human capital function with established limits of authority, training and development, education and staff performance, to provide continuous assurance to be given at higher levels of management and finally to the Board.

A code of conduct is provided to all employees of the Group and acts as a framework for the employees to exercise judgment and make decisions on a consistent basis.

The above statement is made in accordance with the resolution of the Board of Directors dated 12 April 2005.

# AUDIT COMMITTEE REPORT

## 1. ROLE OF AUDIT COMMITTEE ("COMMITTEE")

The Committee shall:

- Provide assistance to the Board of Directors ("Board") in fulfilling its fiduciary responsibilities relating to the corporate accounting and reporting practices of the Company and the Group.
- Monitor the Group's business efficiency, the quality of the accounting and audit function and strengthen the confidence of the public in the Group's reported results.
- Maintain, through regularly scheduled meetings, a direct line of communication between the Board and the external auditors as well as internal auditors.
- Avail to the external and internal auditors as a private and confidential audience at any time they desire and request through the Committee Chairman, with or without the prior knowledge of Management.
- Act upon the Board's request to investigate and report on any issues or concerns with regard to the Management of the Group.

## 2. TERMS OF REFERENCE

- **Compostion**

The Committee shall be appointed by the Board from amongst its Directors and consist of no fewer than three members, the majority of whom shall be independent Directors, independent of senior management and operating executive and unencumbered by any relationships that might, in the opinion of the Board be considered to be a conflict of interest.

The members of the Committee shall elect a Chairman from among their number who shall be an independent and non-executive Director. An alternate Director must not be appointed as a member of the Committee. In the event of any vacancy in the Committee, the Company shall fill the vacancy within three months.

The Board must review the term of office and performance of the Committee and each of its members at least once in every three years to determine whether such Committee and its members have carried out their duties in accordance with their terms of reference.

## AUDIT COMMITTEE REPORT

- **Authority**

The Committee is authorised by the Board:

- a) to investigate any matter within its terms of reference;
- b) to have the resources which are required to perform its duties;
- c) to request with full and shall have unrestricted access to any information it seeks as relevant to its activities from any employees of the Company or the Group and all employees are directed to co-operate with any request made by the Committee;
- d) to have direct communication channels with the external auditors and the Company's Internal Audit Department ("IAD");
- e) to seek and accept independent professional advice and to secure the attendance of outsiders with relevant experience and expertise as it considers necessary; and
- f) to be able to convene meetings with the external auditors, excluding the attendance of the executive members of the committee, whenever deemed necessary.

- **Attendance And Frequency Of Meetings**

The minimum quorum for the meeting is two members of the Committee, the majority of members present must be independent and non executive Directors.

The Group President/Chief Executive Officer ("CEO"), Senior Vice President – Chief Financial Officer cum Joint Company Secretary, Group Internal Audit Manager and representatives from our internal audit co-source partner, Roots Consulting Sdn. Bhd. are normally invited for attendance at each meeting. Representatives of the external auditors are also invited from time to time to brief the Committee on related audit matters.

A minimum of five meetings per year is planned, although additional meetings may be called at any time at the Committee Chairman's discretion.

At least once a year, the Committee shall meet with the external auditors, without the presence of any executives of the Group.

- **Procedures Of Meetings**

- a) The Committee Chairman shall preside at all meetings. In his absence, Committee members present shall elect among themselves an independent and non-executive director to be the chairman of the meeting.
- b) The Committee Chairman may call for a meeting upon the request of the internal or external auditors or any Committee Member or Company's Chairman or CEO; in order to consider any matter that should be brought to the attention of the Directors or shareholders.
- c) The Secretary of the Committee shall draw up the agenda for the meeting and the agenda shall be sent to all members of the Committee and any other persons who may be required to attend.
- d) A minimum seven days' notice shall be given for all meetings. Nevertheless, a shorter notice is permitted subject to agreement by all Committee members.
- e) All decisions are determined by a majority of votes. In case of equality of votes, the Committee Chairman shall have a casting vote.
- f) A resolution in writing signed by a majority of the Committee members and constituting a quorum shall be effective as a resolution passed at a meeting of the Committee.

- **Minutes Of Meetings**

The Secretary shall attend the meetings of the Committee and minute all the proceedings of the meetings. Minutes of meetings must be signed by the Chairman of the meeting and are kept at the registered office of the Company.

## AUDIT COMMITTEE REPORT

### • Functions

The Committee shall review, appraise and report to the Board on:

- a) The discussion with the external auditors, prior to the commencement of audit, the audit plan which states the nature and scope of the audit and to ensure co-ordination of audit where more than one audit firm is involved;
- b) The review with the external auditors, his evaluation of the system of internal controls, his management letter and management's response;
- c) The discussion of problems and reservations arising from the half year and final year external audits, the audit report and any matters the external auditors may wish to discuss (in the absence of Management, where necessary);
- d) The assistance given by the employees of the Group to the external and internal auditors;
- e) The review of the following in respect of IAD:
  - Adequacy of the scope, functions and resources of the IAD and that it has the necessary authority to carry out its work
  - Internal Audit programme
  - The major findings of internal audit investigations and management's responses, and ensure that appropriate actions are taken on the recommendations of the IAD
  - Co-ordination of external audit with internal audit
  - Appraisal or assessments of the performance of the staff of the IAD
  - Approval of any appointment or termination of senior staff member of the IAD
  - Resignations of internal audit staff members and provide the resigning staff member an opportunity to submit his/her reason for resignation
- f) The review of quarterly reporting to the Bursa Malaysia Securities Berhad ("Bursa Malaysia") and year end financial statements of the Group before the submission to the Board, focusing particularly on: -
  - Changes in or implementation of major accounting policy changes;
  - Significant and unusual events; and
  - Compliance with accounting standards and other legal requirements.
- g) The review of any related party transaction and conflict of interest situation that may arise within the Group or Company, including any transaction, procedure or course of conduct that raises questions of Management integrity;
- h) The review of any letter of resignation from the external auditors and any questions of resignation or dismissal;
- i) The review where appropriate whether there is a reason (supported by grounds) to believe that the Group's external auditors is not suitable for re-appointment;
- j) The recommendation of the nomination and appointment of external auditors as well as the audit fee;
- k) Prompt reporting to the Bursa Malaysia on any matter reported by the Committee to the Board which has not been satisfactorily resolved resulting in a breach of the Bursa Malaysia's Listing Requirements; and
- l) 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.

## AUDIT COMMITTEE REPORT

### 3. MEMBERS OF THE COMMITTEE

The Committee is pleased to report that all the members of the Committee are independent & non-executive Directors. The members of the Committee were:

<b>Encik Md Yusof bin Hussin (Committee Chairman)</b>	Senior Independent & Non-Executive Director
<b>Y. Bhg. Prof. Madya Dato' Haji Mohd. Mokhtar bin Haji Shafii</b>	Independent & Non-Executive Director
<b>Encik Mamat @ Mohamed bin Hussain</b>	Independent & Non-Executive Director

Pursuant to the requirement of Paragraph 15.10 of the Bursa Malaysia's Revamped Listing Requirements, which states that at least one member of the Committee must be a member of the Malaysian Institute of Accountants ("MIA"), the Committee Chairman is a member of the MIA.

### 4. MEETINGS OF THE COMMITTEE

The details of attendance at the Committee meetings in 2004: -

Date of meeting	Total Committee Members	Attendance by Committee Members (Percentage Attendance)	
		Independent	Non Independent
1. 20 February 2004	3	3 (100%)	N/A
2. 1 April 2004	3	3 (100%)	N/A
3. 24 May 2004	3	3 (100%)	N/A
4. 11 June 2004	3	3 (100%)	N/A
5. 13 August 2004	3	3 (100%)	N/A
6. 5 November 2004 *	3	3 (100%)	N/A

\* Prior to the commencement of this meeting, a discussion was held between the Committee and external auditors without the presence of any executives of the Group.

The details of attendance by individual Committee Member in 2004: -

Name of Director	Total Meetings Attended by Director	Percentage Attendance
1. Encik Md Yusof bin Hussin	6/6	100%
2. Y. Bhg. Prof. Madya Dato' Haji Mohd. Mokhtar bin Haji Shafii	6/6	100%
3. Encik Mamat @ Mohamed bin Hussain	6/6	100%

## AUDIT COMMITTEE REPORT

### 5. INTERNAL AUDIT FUNCTION

The Committee is supported by IAD whose internal audit function is independent of the activities or operations of its auditees. The Committee is aware that this internal audit function is essential to assist in obtaining the assurance it requires regarding the effectiveness of the system of internal control.

The main role of the internal audit function is to review the effectiveness of the system of internal control and this is performed with impartiality, proficiency and due professional care.

### 6. ACTIVITIES DURING THE YEAR

The Committee met at scheduled times; with due notices of meetings issued, and with agendas planned and itemised so that issues raised in the audit reports by the IAD or in respect of financial statements were deliberated and discussed in a focused and detailed manner.

The Committee has reviewed annual Internal Audit work-plans and reports to ensure the scope of work and conclusions of reports are adequate to assist the Committee to appraise and report to the Board on the financial affairs of the Group.

The Committee also reviewed with the external auditor on audit strategy and plan for the statutory audit of the Group accounts for the year ended 31 December 2004.

At every Committee meeting during the financial year, the summary of the Internal Audit Reports of the Group of companies (incorporating therein, the internal audit findings and management's responses) were tabled and deliberated. In its undertaking of each audit, the IAD reviewed the internal control system and performed relevant compliance audit procedures of the auditee.

The Committee through the IAD has carried out the above functions in the areas as follows: -

- a) Review the accounting and internal controls systems of companies in the Semiconductor, Electronics and Display Divisions to ensure effectiveness and reliability in the preparation of financial statements. The systems documentation has also been reviewed and updated to ensure completeness and effective functioning of all required internal controls.
- b) Review the risk management framework, assessing risks and monitoring the effectiveness of the risk management programme.
- c) Review the presentation of the financial statements of the Group with the external auditors to ensure adequacy of disclosure of information essential to a fair and full presentation of the financial affairs of the Group for recommendation to the Board for approval.
- d) Review the adequacy and effectiveness of the Management's response and authorise the Management to implement the recommendations proposed by IAD and external auditors through the Management Letters raised.
- e) Review the computer software licensing of all the companies within the Group to ensure that the software program in custody / purchased are original, authentically licensed and conform to Copyright Act 1987 and Trade Description Act 1972 Rules and Regulation.
- f) Review the operating / business licenses issued by the respective Municipal Councils, Ministry of International Trade and Industry and Royal Malaysian Custom for all the manufacturing companies within the Group to ensure compliance with the relevant statutory Rules and Regulations.
- g) Review the inter-company transactions and any related / interested party transactions that may arise within the Company and the Group to ensure compliance with Malaysian Accounting Standards Board, Bursa Malaysia's Revamped Listing Requirements and other relevant statutory authorities and to ensure that such transactions are : -
  - Undertaken in the ordinary course of business;
  - Carried out at arm's length and based on normal commercial terms consistent with the Group's usual business practices and policies;
  - On terms not more favourable to the related parties than those generally available to the public; and
  - Not detrimental to the minority shareholders of the Company.
- h) Review the acknowledgement of acceptance by new employees of the Group in relation to the Group's Code of Ethics and Conduct.
- i) In relation to the new employees' share option scheme ("ESOS") which was implemented by the Company in September 2004, the Committee is pleased to report that the allocation of options have been verified and is in compliance with the allocation criteria approved by the ESOS committee. There was no option allocated to the Non-Executive Directors pursuant to the ESOS during the year. The ESOS committee is the committee duly authorised and appointed by the Board to administer the ESOS scheme.

# CODE OF ETHICS AND CONDUCT

The Code of Ethics and Conduct of the AIC Group of Companies aims to achieve and maintain the highest standard of integrity and probity in dealings with customers and among its employees. It is a guide to the values and principles that all employees should strive to achieve in the course of their work. The Code, while offering practical and ethical guidance for employees who represent the Company, also provide direction to help them deal with ethical concerns that may arise.

The Code ensures that the employees are aware of legal and moral responsibilities in discharging their official duties and that every employee understands the values, principles and standards required by the Group. To understand it better, here are some excerpts from the Code: -

1. Employees must at all times act honestly with utmost good faith and act responsibly and professionally in the exercise of his duties and powers in performing his duties towards the Company in any transaction.
2. Employees must have clear understanding of the Company's vision and mission and must work towards achieving the objectives.
3. He must be responsible for protection of the Company's good name and image.
4. He is required to protect and not to disclose any trade secrets or any other information of confidential nature relating to the Company or its business or in respect which the Company owes an obligation of confidence to any third party during or after the employee's employment unless and except in proper course of the employee's duties or as required by law.

5. The management must be responsible to provide adequate safety measures and proper protection at the workplace. The employees must observe all safety and health rules and take all precautions to protect themselves and fellow employees from accident, injury and to continuously maintain a safe working environment at the premises of the Company.

## Conflict Of Interest

1. Employees and their immediate family must not have interest in organizations that have or seek to have business dealings with the Company.
2. Employees must not compete with the interest of the Company through outside business activities.
3. Employees must not serve as directors of companies outside the Group except with Board's approval.
4. Employees and their immediate family must not receive any gifts and / or favours of whatever kind from any suppliers except in certain situations laid down in the Code.
5. Employees must not abuse his position in the Company by taking advantage of information obtained by him for his benefit or for benefit of others. Employees are also prohibited to use the Company's name or facilities for personal advantage.

## Software Compliance Policy

The AIC Group are licensed to use certain copyright protected computer under the Copyright Act 1987 and the Copyright Act (Amendment) 1997. This policy was formulated in line with the authority's move to combat piracy and illegal use of copyrighted software.