

Statement on Internal Control

INTRODUCTION

This Statement on Internal Control by the Board of Directors ("Board") on the Group is made pursuant to the Listing Requirements of the Bursa Malaysia Securities Berhad ("Bursa Malaysia") and in accordance with the Principles and Best Practices provisions relating to internal controls provided in the Malaysian Code on Corporate Governance ("Code"). This statement is guided by the Statement on Internal Control: Guidance for Directors of Public Listed Companies.

BOARD'S RESPONSIBILITIES

The Board acknowledges its overall responsibility for the Group's systems of internal controls as well as reviewing the adequacy, integrity and effectiveness of these systems. It should be noted, however, that such systems are designed to manage rather than to eliminate the risk of failure to achieve business objectives. In addition, it should be noted that these systems can only provide reasonable but not absolute assurance against material misstatement or loss.

The Group had fully disposed of its investment in Nucleus Electronics Ltd ("NEL") which is listed on the Main Board of the Stock Exchange of Singapore, on 21 March 2007. Hence for the purpose of this statement NEL has not been dealt with as part of the Group.

There is an ongoing process for identifying and managing the significant risks faced by the Group. The process has been in place during the year 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 systems are described below.

RISK MANAGEMENT AND INTERNAL CONTROL

RISK MANAGEMENT

The Group has in place a database of risks and controls created and information filtered to produce a risk register and risk profiles for the major operating business units. Key risks to each business unit are identified, scored and categorised to highlight the source of risk, their financial impacts and the likelihood of occurrence. The risk profile is reported to the Audit Committee and the Board.

The risk profile of the major operating business units of the Group are being monitored by the senior management of the major operating business units.

INTERNAL CONTROL

Issues relating to the business operations are highlighted to the Board's attention during Board meetings. Further independent assurance is provided by the Group Internal Audit Function and the Audit Committee. The Audit Committee reviews internal control matters and update the Board on significant issues for the Board's attention and action.

The Group's internal audit function is outsourced to an independent external consultant, has a primary function to assure the Board, through the Audit Committee, that the systems of internal controls function as intended. Further details of the Internal Audit Function are set out on pages 17 to 20 in the Audit Committee Report.

We considered the risks of the Group in formulating our strategies and plans which were approved and adopted by the Board. The strategies and plans are monitored and revised as the need arises.

OTHERS

The other salient features of the Group's systems of internal controls are as follows:-

- Quarterly review of the financial performance of the Group by the Board and the Audit Committee;
- Clearly defined organisation structure and delegation of responsibilities;
- Operations review meetings are held by the respective divisions to monitor the progress of business operations, deliberate significant issues and formulate corrective measures;
- Code of conduct provided to all employees of the Group; and
- Annual budget is prepared by the respective division.

The above statement is made in accordance with the resolution of the Board dated 27 March 2008.

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 governance, risk management, accounting and reporting practices of the Company and the Group together with the status of internal controls.
- Improve the Group’s business efficiency and the quality of the accounting function, the system of internal controls and audit function, thereby strengthening 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 the internal auditors.
- Enhance the independence of both the external and internal auditors’ functions through active participation in the audit process.
- 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.
- 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

COMPOSITION

The Committee shall be appointed by the Board from amongst its Directors and consist of no fewer than three members, all of whom shall be non-executive Directors, with the majority being independent Directors, unencumbered by any relationships with senior management and the operating executive, or any other relationship which might, in the opinion of the Board, be considered to be a conflict of interest. At least one member of the Committee:-

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

The members of the Committee shall elect a Chairman from among their number who shall be an independent Director. An alternate Director, Chief Executive Officer or Managing Director must not be appointed as a member of the Committee. In the event of any vacancy in the Committee, the Board, through the Nomination Committee if necessary, shall fill the vacancy within three months.

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

AUTHORITY

The Committee is authorised by the Board:-

- a) to investigate any matter within its terms of reference;
- b) to request the resources required to perform its duties;
- c) to request and be granted full and unrestricted access to any information it determines 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 auditors;
- e) to obtain independent professional advice and to secure the attendance of outsiders with relevant experience and expertise as it considers necessary; and
- f) 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 quorum for a meeting is two members of the Committee, both of whom must be independent Directors.

The Group Chief Executive Officer (“CEO”) and Chief Financial Officer are normally invited to attend meetings only for discussion of those matters on the agenda for the meeting which fall within their specific scope of responsibility. Representatives from the Group’s internal audit function 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 four meetings per year is planned, although additional meetings may be called at any time at the Committee Chairman’s discretion.

At least twice a year, the Committee shall meet with the external auditors, the internal auditors, or both without the presence of any executives of the Group.

Audit Committee Report (cont'd)

2. TERMS OF REFERENCE (cont'd)

PROCEDURES OF MEETINGS

- a) The Committee Chairman shall preside at all meetings. In his absence, Committee members present shall elect among themselves an independent 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 the 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, with the agreement of the Committee Chairman, 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; and
- 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 Company Secretary shall attend the meetings of the Committee and keep written minutes of all proceedings. Minutes of meetings must be signed by the Chairman of the meeting and are kept at the registered office of the Company.

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 ensures co-ordination of audit where more than one audit firm is involved;
- b) The review with the external auditors, their evaluation of the system of internal controls and the annual Statement on Internal Controls, together with their management letters and Management's response;
- c) The discussion of problems and reservations arising from the 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 internal audit:-
 - Adequacy of the scope, functions, competency and resources of the internal audit functions and that it has the necessary authority to carry out its work;
 - The Internal Audit programme;
 - The major findings of internal audit investigations and Management's responses, ensuring that appropriate actions are taken on the recommendations of the internal auditors;
 - Co-ordination of external audit with internal audit;
 - Approval of any appointment or termination of the internal auditors, and appraisal of the performance of the Group Internal Audit function; and
 - Resignations of Internal Auditors, together with providing the resigning Internal Auditors an opportunity to submit the reasons for resignation.
- f) The review of quarterly reporting to the 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 policies;
 - Significant and unusual events;
 - Compliance with accounting and financial reporting standards and other legal requirements; and
 - Any commentary on the future outlook for the Company and the Group.
- g) The review of any related party transaction and conflict of interest situation that may arise within the Group or the 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 together with the reasons for such resignation;
- i) The review of the re-appointment of the Group's external auditors, including the examination of the independence of the external auditors and, where appropriate, the reasons (supported by grounds) why it is not suitable to re-appoint the external auditors;
- j) The recommendation for the nomination and appointment of external auditors, as well as for approval of the audit fee;
- k) Prompt reporting to Bursa Malaysia on any matter reported by the Committee to the Board which has not been satisfactorily resolved, resulting in a breach by the Company of the Listing Requirements of Bursa Malaysia; and
- l) Any other function that may be mutually agreed upon by the Committee and the Board from time to time, which would be beneficial to the Company and the Group and ensure the effective discharge of the Committee's duties and responsibilities.

Audit Committee Report (cont'd)

3. MEMBERS OF THE COMMITTEE

The Committee is pleased to report that majority of the members of the Committee are independent and non-executive Directors. The members of the Committee are:-

Ng Kok Hok, Committee Chairman (appointed on 1 September 2007) (The Committee Chairman is a member of the MIA)	Independent Non-Executive Director
Yahya Bin Razali	Independent Non-Executive Director
Yap Fook Chin (appointed on 29 November 2007)	Independent Non-Executive Director
Yeow Ewe Chuan (resigned on 29 November 2007)	Executive Director/Group CEO
Yap Chi Keong (resigned on 1 September 2007)	Independent Non-Executive Director

4. MEETINGS OF THE COMMITTEE

The details of attendance at the Committee meetings in 2007: -

Date of meeting	Total Committee Members	Attendance by Committee Members (Percentage Attendance)	
		Independent	Non Independent
1. 27 February 2007 *	3	2 (100%)	1 (100%)
2. 20 April 2007	3	2 (100%)	1 (100%)
3. 6 August 2007	3	2 (100%)	1 (100%)
4. 29 November 2007 *	3	2 (100%)	1 (100%)

* 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 2007: -

Name of Member	Total Meetings attended by Member	Percentage Attendance
1. Ng Kok Hok	1/1	100%
2. Yahya Bin Razali	4/4	100%
3. Yeow Ewe Chuan	4/4	100%
4. Yap Chi Keong	3/3	100%
5. Yap Fook Chin	N/A	N/A

Audit Committee Report (cont'd)

5. INTERNAL AUDIT FUNCTION

In discharging its duties, the Audit Committee is supported by an internal audit function which is outsourced to an independent external consultant who undertakes the necessary activities to enable the Committee to discharge its functions effectively. The Committee regards the internal audit function as essential to assist in obtaining the assurance it requires regarding the effectiveness of the systems of corporate governance, risk management and internal controls within the Company and the Group.

During the financial year under review, the internal auditor conducted audits on the activities of the Company and certain operating units in the Group in accordance with the approved audit plan. The findings and recommendations for improvements were presented to the Audit Committee for deliberation

6. ACTIVITIES DURING THE YEAR

During the financial year, the Committee carried out its duties in accordance with its term of reference. The main activities undertaken by the Committee were as follows:-

- Reviewed the external auditors' scope of work and audit plans for the year. Prior to the audit, representatives from the external auditors presented their audit strategy and plan.
- Reviewed with the external auditors the results of the audit, the audit report and the management letters.
- Held two separate meetings with the external auditors without the presence of the Management.
- Considered and recommended to the Board for approval of the audit fees payable to the external auditors.
- Reviewed the independence, objectivity and effectiveness of the external auditors and the services provided, including non-audit services (if any).
- Reviewed the internal audit reports, which highlighted the audit issues, recommendations and Management's response. Discussed with Management, actions taken to improve the system of internal controls based on improvement opportunities identified in the internal audit reports.
- Reviewed the effectiveness of the enhanced Enterprise Risk Management framework and risk assessment reports in February 2007. Significant risks issues were summarised and communicated to the Board for consideration and resolution.
- Reviewed the Annual Report and the Audited Financial Statements of the Group and the Company, prior to the submission to the Board for their consideration and approval, to ensure that the Audited Financial Statements were drawn up in accordance with the provisions of the Companies Act, 1965 and the applicable Approved Accounting Standards as determined and set out by The Malaysian Accounting Standard Board ("MASB"). Any significant issues resulting from the audit of the financial statements by the external auditors were deliberated upon.
- Reviewed the quarterly unaudited financial results announcements of the Group before recommending them to the Board for its approval. The review and discussion of these announcements was conducted with the presence of the Executive Directors.
- In respect of the quarterly and year end financial statements, reviewed the Company's compliance with the Listing Requirements of the Bursa Malaysia, MASB and other relevant legal and regulatory requirements.
- Reviewed related party transactions entered into by the Company and the Group to ensure that such transactions were undertaken in line with the Group's normal commercial terms and that the internal control procedures with regards to such transactions are sufficient.
- In relation to the employees' share option scheme ("ESOS") which was implemented by the Company in September 2004, the Committee is pleased to report that there was no option granted during the year.