

# AUDIT COMMITTEE REPORT

The Audit Committee of the Board of Directors was formed in 1977. The present members of the Committee are:

- Tan Sri Abdul Rashid Hussain (Chairman)
- Dato' Kamaruddin bin Mahmood
- Syed Zaid bin Syed Jaffar Albar
- Datuk Hassan Abas
- Neville Barry Venter

The members of the Audit Committee consist solely of Non-Executive Directors, the majority of whom are independent. The independent members are Tan Sri Abdul Rashid Hussain as independent Chairman, Dato' Kamaruddin bin Mahmood and Syed Zaid bin Syed Jaffar Albar as independent members. The Non-Independent Directors are Datuk Hassan Abas and Neville Barry Venter.

The Committee has four meetings during the year. The meetings were attended by all members except for Neville Barry Venter who has attended three out of the four meetings. Other members of senior management attended some of these meetings upon invitation by the Chairman of the Committee. The Group's internal and external auditors attended all the meetings during the period.

The terms of reference of the Audit Committee are set out in pages 42 to 44.

During the financial year, the Audit Committee carried out its duties as set out in the terms of reference. In particular, the functions of the Audit Committee are to review accounting policies, internal controls, statutory financial statements and related party transactions of the Company and its subsidiary companies on behalf of the Board of Directors.

In performing its functions, the Audit Committee reviewed the overall scope of internal audits. It met with the Group's internal auditors to discuss the results of their examinations and their evaluation of the system of internal accounting controls of the Company and its subsidiary companies.

In addition, the Audit Committee discussed with the external auditors the audit plan which states the nature and scope of audit and the results of examination arising from the external audit.

The Audit Committee also reviewed the quarterly announcements to Bursa Malaysia Securities Berhad and the financial statements of the Company and the consolidated financial statements of the Group as well as the statutory auditors' report thereon. The Audit Committee recommended to the Board of Directors, subject to the shareholders' approval, the selection of the Company's and its subsidiary companies' statutory auditors.

In its endeavour to fulfill its responsibilities, the Audit Committee focused its attention on key aspects of business operations that have significant impact not only on profitability but also the quality of services provided to customers.

Other main issues discussed by the Audit Committee are as follows:

- Review of the Group's risk management reports;
- The new Accounting Standards issued by the Malaysian Accounting Standards Board and their applicability to the consolidated financial statements for the financial year ended 31 December 2004; and
- The updated disclosure requirements of the Listing Requirements of Bursa Malaysia Securities Berhad.

#### **INTERNAL AUDIT FUNCTION**

The Group uses the services of the Jardine Matheson Group Internal Auditors to accomplish its internal audit requirements. The Group Internal Auditors report to the Audit Committee on matters concerning the Group and assists the Board of Directors in monitoring and managing risks and internal controls.

The Group Internal Auditors review internal controls in all key activities of the Group and recommend improvement in controls and procedures. The Group Internal Auditors are independent of the activities they audit and perform with impartiality and due professional care. Findings of the Group Internal Auditors are reported regularly to the Audit Committee.

The Audit Committee approves the internal audit plan of the Group Internal Auditors each year. The scope of the internal audit covers the audits of all units and operations, including subsidiaries. In addition, the Group Internal Auditors also audit the various computer application systems and network of the Group.

During the year the management worked hand in hand with the Group Internal Auditors in identifying risk areas, implementing control measures and monitoring controls. The monitoring process will form the basis for continually improving the risk management process in the context of the Group's overall goals.

In the course of auditing, the Group Internal Auditors have identified some minor internal control weaknesses during the period, which have been or are being addressed. None of the weaknesses have resulted in any material losses, contingencies or uncertainties that would require disclosure in the Group's Annual Report.

# AUDIT COMMITTEE TERMS OF REFERENCE

## PURPOSE

The Audit Committee is established as a committee of the Board of Directors. The primary objectives of the Audit Committee are to:

1. Provide assistance to the Board in fulfilling its statutory and fiduciary responsibilities for examinations of the Company and its subsidiaries (the “Group”) and in monitoring the Group's management of business/ financial risk processes and accounting and financial reporting practices;
2. Determine that the Group has adequate administrative, operational and internal accounting controls and that the Group is operating in accordance with its prescribed procedures, codes of conduct and applicable legal and regulatory requirements;
3. Serve as an independent and objective party in the review of the financial information presented by management for distribution to shareholders and the general public; and
4. Provide direction and oversight over the internal audit function and the external auditors to enhance their independence from management.

## MEMBERSHIP

The Audit Committee shall have at least three members of whom the majority shall be independent directors. The quorum for the Committee shall be two members with the majority present being independent directors. The chairperson of the Committee shall be an independent director.

At least one member of the Committee, preferably an independent director, must meet the criteria set by the Listing Requirements of Bursa Malaysia Securities Berhad (Paragraph 15.10 (c)).

Audit Committee members and the chairperson shall be appointed by the Board based on the recommendations of the Nomination Committee. No alternative directors shall be appointed to the Audit Committee.

If a member of the Committee resigns, dies or for any reason ceases to be a member resulting in non-compliance with the above paragraphs, the Board shall, within three (3) months of that event, appoint such number of new members as may be required.

The Audit Committee shall have no executive powers.

## COMMITTEE'S OPERATING PRINCIPLES

The Audit Committee wherever necessary and reasonable for the performance of its duties, shall in accordance with the procedures determined by the Board and at the cost of the Group:

1. Have authority to investigate any matter within its terms of reference;
2. Have the resources which are required to perform its duties;
3. Have full and unrestricted access to any information pertaining to the Group;
4. Have direct communication channels with the external auditors and person(s) carrying out the internal audit function or activity (if any);
5. Be able to obtain independent professional advice or other advice; and
6. Be able to convene meetings with the external auditors, excluding the attendance of the executive members of the Committee, whenever deemed necessary.

## MEETINGS

The Committee shall meet at least four (4) times each year. Additional meetings shall be scheduled as considered necessary by the Committee or chairperson. The Committee may establish any procedures from time to time to govern its meetings, keeping of minutes and its administration.

The Committee may request other directors, members of management, counsels, internal auditors and external auditors, as applicable to participate in Committee meetings, as necessary, to carry out the Committee's responsibilities. It shall be understood that either internal or external auditors, may, at any time, request a meeting with the Audit Committee with or without management attendance.

The external auditors shall be given notice of meetings and shall have the right to attend and speak.

At least once a year, the Committee shall meet with the external auditors without the presence of executive Board members.

The Secretary of the Committee shall be appointed by the Committee from time to time. Committee meeting agendas shall be the responsibility of the Committee chairperson with input from Committee members. The chairperson may also ask management to participate in this process. The agenda for each meeting shall be circulated at least seven days before each meeting to the Committee members, the external auditors and all those who are required to attend the meeting. Written materials including information requested by the Committee from management, internal audit and external auditors shall be received together with the agenda for the meetings.

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 chairperson of the meeting at which the proceedings were held or by the chairperson of the next succeeding meeting and if so signed, shall be conclusive evidence without any further proof of the facts thereon stated. Minutes of each meeting shall also be distributed to all attendees (members) of the Audit Committee meeting and external auditors.

The Committee, through its chairperson, shall report to the Board after each meeting. The minutes of the Committee meeting shall be available to all Board members.

## SCOPE OF ACTIVITIES

The duties of the Audit Committee shall include the following:

1. To recommend appointment of the external auditors and their fees and consider any questions of resignation or dismissal including whether there is reason (supported by grounds) to believe that the external auditors are not suitable for re-appointment;
2. To review the external auditors' proposed scope and approach before the audit commences and ensure co-ordination where more than one audit firm is involved;

3. To review the quarterly financial announcements and year-end financial statements of the Group, prior to the approval by the Board, focusing particularly on:
  - changes in or implementation of major accounting policy changes;
  - significant and unusual events;
  - significant adjustments arising from the audit;
  - going concern assumption; and
  - compliance with accounting standards and other legal requirements.
4. To discuss problems and reservations arising from interim and final audits and any matter the auditor may wish to discuss (in the absence of management where necessary) including assistance given by employees of the Group to the auditor;
5. To review with the external auditors, their evaluation of the system of internal controls, including any significant suggestions for improvements and management's response;
6. To review with the external auditors, their audit report;
7. To review the Group's business risk management process, including adequacy of the Group's overall control environment and controls in selected areas representing significant financial and business risk;
8. To do the following where an internal audit function exists:
  - review the adequacy of the scope, function and resources of the internal audit function and that it has the necessary authority to carry out its work;
  - review the internal audit programme, process and results of the internal audit programme, processes or investigation undertaken and where necessary ensure that appropriate action is taken on the recommendations of the internal audit function;
  - review any appraisal or assessment of the performance of members of the internal audit function; and
  - be aware of resignations of internal audit staff members and provide the resigning staff member an opportunity to submit his reasons for resigning.
9. To review any related party transactions and conflict of interest situation that may arise within the Group including any transaction, procedure or course of conduct that raises questions of management integrity;
10. To review the major findings of internal investigations and management's response;
11. To review management's monitoring of compliance with the Group's code of corporate conduct;
12. To review with the Group's counsels, any legal matters that could have a significant impact on the Group's financial statements;
13. To review the findings of any examinations by regulatory authorities;
14. Where the Audit Committee is of the view that a matter reported by it to the Board has not been satisfactorily resolved resulting in a breach of these requirements, the Audit Committee must promptly report such matters to Bursa Malaysia Securities Berhad; and
15. Perform other oversight functions as requested by the Board.



# ADDITIONAL COMPLIANCE INFORMATION

In compliance with the Listing Requirements of Bursa Malaysia Securities Berhad, the following information is provided:

## NON-STATUTORY AUDIT FEES

The amount of non-statutory audit fees paid and payable to the external auditors by the Company and its subsidiaries for the financial year ended 31 December 2004 are as follows:

PricewaterhouseCoopers	RM70,000
PricewaterhouseCoopers Taxation Services Sdn Bhd	RM71,000
<b>Total</b>	<b>RM141,000</b>

## MATERIAL CONTRACTS

Neither the Company nor any of its subsidiaries have entered into any contracts which are or may be material (not being contracts entered into in the ordinary course of business) involving Directors' and major shareholders' interests since the end of the previous financial year other than that disclosed below:

On 14 January 2005, the Company announced that its wholly-owned subsidiaries, Asia Automobile Industries Sendirian Berhad ("AAI") and Srisari Sdn Bhd ("Srisari") have each entered into a separation agreement with DaimlerChrysler Malaysia Sdn Bhd ("DCM") for an early termination of the assembly agreements currently undertaken by AAI of Mercedes-Benz C-Class, S-Class and commercial vehicles and Srisari of Mercedes-Benz C-Class, E-Class and S-Class engines upon the terms and conditions set out in the respective separation agreements. The assembly agreements are expected to be terminated on 30 June and 31 July 2005 for Srisari and AAI, respectively.

## RECURRENT RELATED PARTY TRANSACTIONS

The Company has at the Annual General Meeting held on 12 May 2004 obtained shareholders' mandate for the Group to enter into recurrent transactions of a revenue or trading nature, which are necessary for its day to day operations and are in the ordinary course of business, with related parties. The said general mandate took effect from 12 May 2004 until the conclusion of the forthcoming Annual General Meeting of the Company. The Company intends to seek a renewal of the said general mandate for recurrent related party transactions and also extend the scope of the said general mandate to apply to new recurrent related parties, at the forthcoming Annual General Meeting of the Company.

The details of the new mandate to be sought will be furnished in the Circular to Shareholders dated 15 April 2005 attached to this Annual Report.

## SANCTIONS OR PENALTIES

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



