



I am honoured to be the Chairman of AKN Messaging Technologies Berhad and it is my pleasure to present the Annual Report of the Company for the financial year ended 30 June 2003 on behalf of the Board of Directors.

... to transform  
the company into a  
**Global**  
independent content  
and application  
solutions provider.

The year 2003 registered a historical milestone for the Company. The endurance, commitment and dedication of the management and staff of the Company since its incorporation was rewarded with the successful listing of the Company's shares on the MESDAQ Market of the Kuala Lumpur Stock Exchange on 27 January 2003.

I am very pleased to note that the Company's exciting business model is well received by research houses and the investing public leading to a more than 7 fold increase in its share price, from the initial public offering price of RM0.45 per share to RM3.44 as at the date of this letter. Encouraged by this support, the Board and management will strive harder to transform the Company into a global independent content and application solutions provider to the mobile telecommunication industry.

## PROCEEDS FROM THE INITIAL PUBLIC OFFERING EXERCISE

The Company raised RM10.1 million during its Initial Public Offering ("IPO") exercise to fund its overseas business expansion, capital expenditure, research and development activities and general working capital needs. As at 30 June 2003, the Company had utilised RM6.1 million for the identified activities, leaving a balance of RM4.0 million of which RM3.5 million is reserved to fund its overseas business expansion.

## FINANCIAL HIGHLIGHTS

For the financial year ended 30 June 2003, the Company's revenue increased 283% to RM16.1 million from RM4.2 million in the previous financial year. This exponential growth is mainly due to the Company's successful partnership with the local mobile phone operators where the Company is accorded direct access to the subscribers of the respective operators for the distribution of its products and applications. Such partnership programmes were initiated by the Company in late 2001 and to date, the Company has forged partnership with all the local mobile phone operators.

The higher revenue coupled with better economies of scale arising from higher capacity utilisation has caused the profit after tax of the Company to leap-frog by almost ten fold to RM5.7 million from RM0.6 million in the previous year.

The shareholders' funds of the Company have also increased significantly from RM4.7 million in the previous financial year to RM18.7 million as at 30 June 2003.

... the Company's  
revenue increased  
283% to  
RM16.1 million...



Commemorating the introduction of AKNMTECH's Portal SMS service for BMB cardholders.



A milestone achievement - the company's listing on the KLSE's MESDAQ Market on 27th January 2003.

## CORPORATE DEVELOPMENT

In line with its vision to be a global content and application solutions provider, the Company had initiated the following strategic acquisitions.

### AKN Messaging Technologies (S) Pte. Ltd. ("AKN MTech (S)")

On 23 June 2003, the Company acquired the entire interest in AKN MTech (S) for a cash consideration of SGD2.00 to spearhead the Company's expansion into Singapore. AKN MTech (S) has already clinched a partnership agreement with MobileOne Ltd. ("M1") and Singapore Telecom Mobile Pte. Ltd. ("Singtel") and is expected to commence operations in the second quarter of the current financial year. Upon commencement, it will immediately have the accessibility to approximately 3 million mobile phone subscribers in Singapore.

... accessibility  
to 3 million  
mobile phone  
subscribers  
in Singapore.

### Messaging Technologies (HK) Limited ("MTech (HK)")

In year 2002, the Company entered into a Technology Transfer and Technical Assistance Agreement to transfer its technology to MTech (HK) for a consideration of RM500,000. Under the agreement, MTech (HK) is given the rights to operate in Hong Kong, China, Macao and Taiwan and the Company has the option to convert the said consideration into 1,000,000 ordinary shares of HK\$1 each in MTech (HK), representing 20% of its initial paid up capital. MTech (HK) carries out similar activities to the Company, commenced operations in August 2001 and has managed to secure partnership arrangements with all the mobile phone operators in Hong Kong.

The Company views the business of MTech (HK) to be strategic to its regional expansion plan and hence has negotiated for a share swap arrangement with the existing shareholders of MTech (HK). The negotiation led to the signing of a Memorandum of Understanding between the Company and the existing shareholders of MTech (HK) on 18 June 2003.

Subsequently on 25th September, 2003, the Company entered into a merger agreement with the existing shareholders of MTech (HK) where the Company will issue 8,736,000 new ordinary shares of RM0.10 each in exchange for the entire existing issued and paid up capital of MTech (HK) comprising 4,789,474 shares of HK\$1.00 each. Upon completion of the merger and the exercising of the option for 1,000,000 new ordinary shares in MTech (HK) as mentioned above, MTech (HK) will become a wholly owned subsidiary of the Company. However the number of ordinary shares to be issued by the Company will be adjusted to 13,977,600 million if the Company's proposed bonus issue of 3 new ordinary shares for every 5 existing ordinary shares held is completed before the completion of the proposed merger.

The proposed merger is subject to the approval of the relevant authorities in Malaysia and shareholders of the Company. The merger will facilitate the Company's participation in the Hong Kong's mobile messaging market and the opportunity to penetrate and participate in the burgeoning China's mobile messaging market where there are approximately 250 million mobile phone subscribers; nearly 30 times the size of the Malaysian market.

... 250 million  
mobile phone  
subscribers in China;  
nearly  
**30 TIMES**  
the size of the  
Malaysian market...



**AKN Messaging Technologies Thailand Limited ('AKN MTech (Thailand)')**

With the assistance of some business associates, the Company has successfully made inroads into Thailand where there are approximately 20 million mobile phone subscribers, twice the number in Malaysia. The Company has clinched partnership agreements with two mobile phone operators in Thailand and is in the process of finalising another one for the distribution of the Company products and application solutions.

To commence operations, a physical and permanent presence in Thailand is preferred. As such, the Company entered into a joint venture agreement with various individuals including some prominent Thai businessmen to acquire AKN MTech (Thailand) where the Company will have a 70% equity interest.

AKN MTech (Thailand) is expected to commence operations in the second quarter of the current financial year.

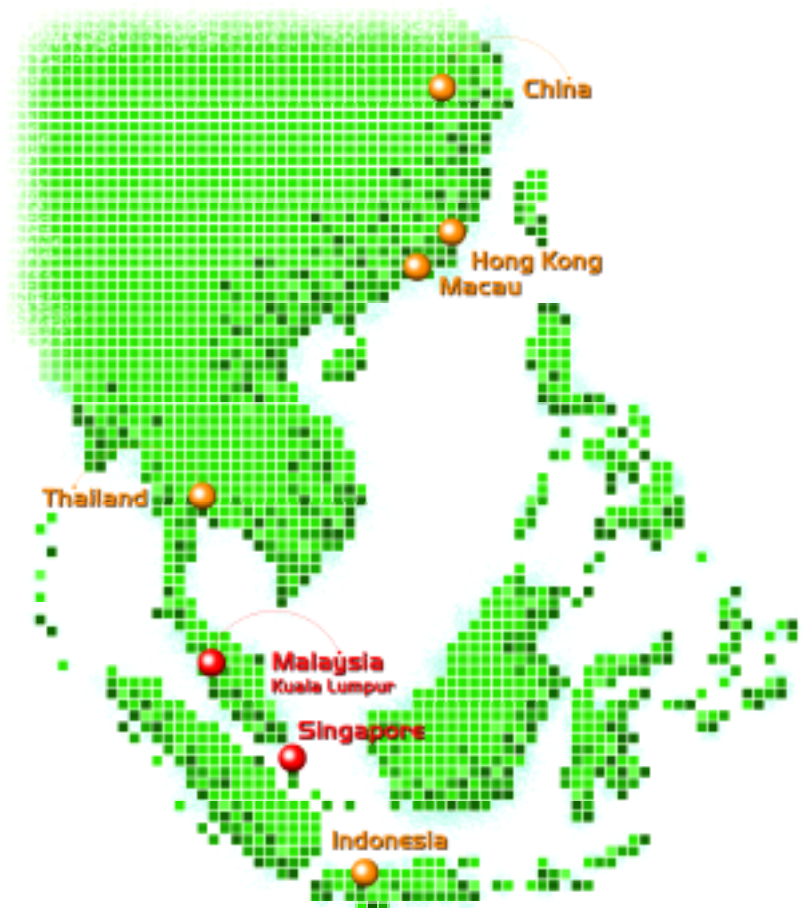
**... 20 million mobile phone subscribers, twice the number in Malaysia.**

**Other Corporate Activities**

To reward loyal shareholders and to promote greater liquidity for the trading of the Company's shares on the KLSE MESDAQ market, the Company had on 4 July 2003 announced a proposed bonus issue on the basis of three (3) new ordinary shares for every five (5) existing ordinary shares held. The bonus shares shall be capitalised out of its share premium account and is subject to approval of the relevant authorities in Malaysia and the shareholders of the Company. The proposed bonus issue has been approved by the Securities Commission and the KLSE on 26 September 2003.



**AKNMTECH's**  
dynamic expansion strategy  
takes advantage of the  
emerging global and  
borderless world,  
particularly in content and  
application solutions.



## TECHNOLOGY EXCELLENCE AND RECOGNITION

The commitment to research and development activities and capability to develop mobile-internet messaging products and solutions using the Short Messaging Services ("SMS") and Wireless Application Protocol ("WAP") technology has earned the Company the Multimedia Super Corridor ("MSC") status in October 2000.

The Company's continuing efforts to develop innovative products and application solutions to the mobile communication industry services was rewarded with the "Gold Kacip Award" by emerging as the overall winner of the Ericsson Mobility World cum Kacip @ Cut-Edge Awards for two consecutive years in 2001/2002 and 2002/2003. The award is offered worldwide to recognise innovative products and application solutions developed by independent application providers for the mobile telecommunication industry.

... Company's self developed IMP, MMS/GPRS based products and Java based application solutions.

To operate in the dynamic mobile communication industry, the Company believes that it is imperative to remain diligent with its research and development efforts so as to keep abreast of technological advancement and changes in mobile users' demand and requirement for value added products and services.

For the financial year ended 30 June 2003, the Company had invested RM406,453 (excluding the cost of development tools and equipment) for research and development activities. Such activities include:-

- (i) Enhancing the Company's self developed Intelligent Messaging Platform ("IMP");
- (ii) Development of MMS/GPRS based products such as polyphonic ring-tones, coloured wallpaper and coloured animation; and
- (iii) Development of "Java" based application solutions.

The Company has also recently teamed up with Ericsson Malaysia and NEC Malaysia to jointly develop 3G products and applications.



Winner of the Ericsson Mobility World cum Kacip @ Cut-Edge Award for two consecutive years.



## INDUSTRY TREND AND DEVELOPMENT

The mobile telecommunications market is characterised as one of the fastest growing sectors within the Malaysian telecommunication industry. Based on the industry statistics released by the Malaysian Communications and Multimedia Commission ("MCMC"), the number of mobile phone subscribers has grown from 2.7 million in 1999 to 8.6 million in September 2002. Today, the number of mobile phone subscribers is estimated to be approximately 9.8 million, an increase of 1.3 million over a one-year period. However this represents only a penetration rate of 40% as compared to our neighbouring countries such as Singapore and Hong Kong where the penetration rate was reported to be at 75% and 90% respectively.

Basing on the above statistics, the local mobile telecommunication market is expected to continue its growth in the current financial year. Besides the increasing subscriber base, the industry also experienced an explosive growth in mobile data traffic. Most, if not all, of the local mobile phone operators projected their mobile data revenue to double in this financial year.

Insofar as technology development and enhancement is concerned, the local mobile telecommunication industry is undergoing the natural migration from SMS/GSM network to MMS/GPRS network. The GPRS network which is faster and more flexible than the GSM network will allow the Company to launch a wider range of more sophisticated products and application solutions. Currently most of the local mobile phone operators have launched the GPRS network but the services are restricted to selected areas. It is expected to go nationwide within the next six months.

**... Telecommunication industry is undergoing the natural migration from SMS/GSM network to MMS/GPRS network.**



The next wave of technology development will be the 3G system which uses the packet switching technology and offers faster data transmission rate. The two local mobile phone operators who have been given the licence to operate the 3G system are currently carrying out developmental trials on the system which it is expected to go live in 18 to 24 months from now.



The Company's products & services

eBuzz NetMon  
Instant eBuzz  
International SMS  
Enhanced SMS eBuzz Active Info  
eBuzz Greeting eBuzz Events  
eBuzz Ringtones eBuzz Solat eBuzz Logo  
eBuzz Group Logo eBuzz Picture Message  
eBuzz EMS Animations eBuzz EMS  
eBuzz Chat eBuzz Conference eBuzz Flash  
eBuzz Soccer Alerts eBuzz eResults  
eBuzz Blink eBuzz Cartoon SMS eBuzz Diary  
eBuzz WAPMail eBuzz Chinese Almanac  
eBuzz SMS Games eBuzz SMS Classifieds  
eBuzz Horoscope eBuzz Blink  
eBuzz Messenger eBuzz Virtual Mail  
eBuzz Java Downloads  
eBuzz Mail Box eBuzz Wap Movies  
eBuzz Wap Games  
eBuzz Fax 2 Email  
eBuzz World Time



[www.gsm.com.my](http://www.gsm.com.my)



[www.ebuzz.com.my](http://www.ebuzz.com.my)



[www.32322.com.my](http://www.32322.com.my)



## BOARD CHANGES AND CORPORATE GOVERNANCE

The Company believes that a balanced and effective board is instrumental to achieving clarity in direction, efficiency, effectiveness and transparency in management to ensure its continuing success. In addition, the Company is also mindful of its code of ethics and the requirements of best business practices to propagate a high level of confidence amongst investors, business partners and the general public.

Apart from myself, there are two other Independent Directors on the Board. They are Datuk Haji Hasan bin Malek and Encik Mohamed Najeb bin Ali, whose respective expertise, skills and experience will contribute immensely to the Board. Datuk Haji Hasan is the Chairman of the Audit Committee as well as the Senior Independent Non-Executive Director.

To further strengthen the Board, we invited Mr. Ooi Boon Leong and Mr. Wong Sik Sim to join us on 9 July 2003 and 22 September 2003 respectively.

Mr Ooi, an accountant by profession and a member of the Malaysian Institute of Certified Public Accountants, is a successful businessman and is the Group Chief Executive Officer of AKN Technology Bhd., a company listed on the Main Board of the KLSE. Mr. Ooi also sits on the MIG-Photonics Committee. MIG is the MIGHT (Malaysia Industry-Government Group for High Technology) Interest Group where MIGHT is a Malaysian Government initiative to bring together Government, Industry and Academic interest to help formulate Malaysian governmental policies.

Mr. Wong is also an accountant by profession and a member of Malaysian Institute of Certified Public Accountants. He started his career in Malaysia but has since spent more than 10 years in Hong Kong and China. His overseas working experience will bring valuable contributions to the Company especially when the Company is expanding abroad.

On behalf of the Board of Directors, I welcome Mr. Ooi and Mr. Wong to the Board and look forward to working with them.

I would also like to take this opportunity to thank Mr. Lee Kok Khee who left the Board on 22 September 2003, for his contribution to the Company. On Behalf of the Board, I wish him every success in his future undertakings.



## DIVIDENDS

In recognising the support of loyal shareholders, the Company will consistently provide returns to shareholders in the form of cash dividends.

In addition to the interim tax exempt dividend of 10% or 1 sen per share paid on 20 June 2003, the Board has also recommended a final tax exempt dividend of 15% or 1.5 sen per share, making a total of 25% or 2.5 sen per share for the financial year ended 30 June 2003. The final dividend is subject to the approval of the shareholders at the forthcoming Annual General Meeting.

## PROSPECTS

For the current financial year, the Company's earnings will be substantially derived from the domestic market as its overseas ventures in Singapore and Thailand are expected to commence operations only in the second quarter of the financial year. Although the acquisition of MTech (HK) will contribute positively to the Group, the contribution will not be significant as the acquisition is expected to be completed only by the end of the third quarter of the financial year.

Nevertheless, with the continuing growth of the domestic mobile telecommunication industry, the Company, barring any unforeseen circumstances, is expected to generate a better performance in this current financial year.

## APPRECIATION

On behalf of the Board, I wish to extend my sincere gratitude and appreciation to members of our management team and staff for their contribution to the Company's success. I also wish to extend our gratitude and appreciation to our customers, suppliers, business associates, bankers, authorities and most importantly, our shareholders for their continuing support and confidence in the Company.

**DATUK DR. A WANG ADEK BIN HUSSIN**

Chairman

6 October 2003

The Board of Directors is committed to ensuring that the highest standards of corporate governance are practiced throughout the Company as a fundamental part of discharging its responsibilities to protect and enhance shareholder value and the financial performance of AKN Messaging Technologies Berhad.

The Principles and Best Practices of the Malaysian Code on Corporate Governance (the "Code") published in October 2000, were incorporated into the revamped Listing Requirements of the Kuala Lumpur Stock Exchange (KLSE) and in preparing this report, the Board has considered the manner in which it has applied the Principles of the Code and the extent to which it has complied with the Best Practices of the Code.

## SECTION 1 : DIRECTORS

### Composition of the Board

The Board has nine members. Six out of nine members are Non-Executive Directors, three of whom are independent. No individual or group of individuals dominates the Board's decision making and the number of directors reflect fairly the investment of the shareholders.

Datuk Dr. Awang Adek bin Hussin is the Independent Non-Executive Chairman while Mr. Lim Seng Boon is the Managing Director. There is a clear division of responsibilities between these two roles to ensure a balance of power and authority.

The Company considers that its complement of Non-Executive Directors provides an effective Board with a mix of industry-specific knowledge and broad business and commercial experience. This balance enables the Board to provide clear and effective leadership to the Company and to bring informed and independent judgement to many aspects of the Company's strategies and performance.

More than one-third of the Board comprise Non-Executive Directors since the Company recognises the contribution of Non-Executive Directors as equal Board members to the development of the Company's strategy, the importance of representing the interest of public shareholders and providing a balanced and independent view to the Board.

In accordance with the requirement of the Code, Datuk Haji Hasan bin Malek has been appointed as the Senior Independent Non-Executive Director in 2003, to be available to deal with concerns regarding the Company where it could be inappropriate for these to be dealt with by the Chairman or the Managing Director.

### Board Responsibilities

The Board retains full and effective control of the Company. This includes responsibility for determining the Company's overall strategic direction. Key matters, such as approval of annual and interim results, acquisitions and disposals, as well as material agreements, major capital expenditures, budgets, long range plans and succession planning for top management are reserved for the Board.

The Board has 4 regular quarterly scheduled meetings annually with additional meetings convened as and when necessary. Meeting agenda includes review of quarterly financial results and announcement, macro strategies and other major matters arising such as acquisitions, mergers and disposals.

Details of each existing Director's meeting attendances for the financial year 2003 are as follows:

NAME	NUMBER OF MEETINGS ATTENDED	NUMBER OF MEETINGS HELD DURING THE DIRECTOR'S TERM IN OFFICE
Datuk Dr. Awang Adek bin Hussin	1	2
Dato' Ahmad Kabeer bin Mohamed Nagoor	1	2
Datuk Haji Hasan bin Malek	2	2
Lim Seng Boon	2	2
Lim Eng Thong	2	2
Krishnan C K Menon	2	2
Mohamad Najeb bin Ali	1	1
Ooi Boon Leong	N/A	N/A
Wong Sik Sim	N/A	N/A

Mr. Ooi Boon Leong and Mr. Wong Sik Sim were appointed to the Board only on 9 July 2003 and 22 September 2003 respectively and henceforth did not attend the Board meetings held during the financial year ended 30 June 2003.

The Board has also delegated certain responsibilities to the Audit Committee, which operate within clearly defined terms of reference.

#### Supply of Information

Each Board member receives quarterly operating results and other reports when applicable. Prior to each Board meeting, Directors are sent an agenda and a full set of Board papers for each agenda item to be discussed at the meeting. This is 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 Audit Committee
- \* Quarterly performance report of the Company
- \* Major operational and financial issues

Where applicable, there will be 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 Company, major investments, change to management and control structure of the Company, 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 the Chairman or with two other Directors (one of whom is non-executive). Such advice was not sought by any of the Directors during the financial year ended 30 June 2003.

Directors have access to all information within the Company whether as full board or in their individual capacity, in furtherance of their duties.

Directors also have direct access to the advice and the services of the Company Secretary who is responsible for ensuring that Board procedures are followed.

#### **Appointments of the Board and Re-election**

Currently, the appointment of Directors are dealt with by the entire Board. The Board has not set up the Nomination Committee as the Board believes that given its current size and composition, appointment of new directors can be effectively dealt with by the entire Board.

In accordance with the Company's Articles of Association, all Directors except the Managing Director, shall retire from office at least once in every 3 years, but shall be eligible for re-election. A retiring director shall retain office until the close of the meeting at which he/she retires.

## **SECTION 2: DIRECTORS' REMUNERATION**

#### **Remuneration Policy and Procedures**

Directors' remuneration are dealt with by the Board. The Board has not set-up a Remuneration Committee after taking into account that there is only one salaried Executive Director and also the quantum of remuneration paid to him.

The salaried Executive Director does not receive other benefits apart from his monthly salary and non-contractual annual bonuses and share options granted under the Employees' Share Options Scheme. The other Executive Directors do not receive other benefits apart from share options granted under the Employees' Share Options Scheme.

Directors' fees which are subject to shareholders approval are payable only to Non-Executive Directors. For the year ended 30 June 2003, the Board proposed a fee of RM18,000 for each Non-Executive Director. In addition, the Board also proposed an additional fee of RM6,000 payable to the Chairman of the Board.

In determining the Directors' remuneration, the Board took into account the responsibilities, contribution and performance by each individual director.

The Executive Director plays no part in determining his own remuneration whilst the Non-Executive Directors abstain from discussion of their own remuneration.

#### **Directors' Remuneration**

The details of the Directors' remuneration for the financial year are:

<b>RM'000</b>	<b>SALARY</b>	<b>BONUS</b>	<b>FEE</b>	<b>TOTAL</b>
Executive	171,485	10,000	-	181,485
Non-Executive	-	-	96,000	96,000
Total	171,485	10,000	96,000	277,485

The Directors, whose remuneration falls within the following bands are as follows:

RANGE	EXECUTIVE	NON-EXECUTIVE
Below RM50,000	-	5
RM50,001 - RM100,000	-	-
RM100,001 - RM150,000	1	-

The details of remuneration of each director are not disclosed as the information is sensitive and confidential.

## SECTION 3 : SHAREHOLDERS

### Dialogue Between the Company and Investors

As part of the Board's responsibility in developing and implementing an investor relations programme, regular discussions were held between the Managing Director and analysts/investors throughout the year. The Company has also conducted several analysts briefing with fund managers and potential investors. Presentations based on permissible disclosures are made to explain the Company's performance and major development programmes. Price-sensitive information about the Company is, however, not disclosed in these exchanges until after the prescribed announcement to the KLSE has been made.

### Annual General Meeting

The Annual General Meeting is the principal forum for dialogue with shareholders. Notice of the Annual General Meeting and annual reports are sent out to shareholders at least 21 days before the date of the meeting.

Besides the usual agenda for the Annual General Meeting, the Board presents the progress and performance of the business as contained in the annual report and provides opportunities for shareholders to raise questions pertaining to the business activities of the Company. The Board is available to provide responses to questions from the shareholders during the meeting.

Items for special business included in the notice of the meeting will be accompanied by an explanatory statement to facilitate the shareholders' understanding and evaluation of the matters involved.

## **SECTION 4 : ACCOUNTABILITY AND AUDIT**

### **Financial Reporting**

For financial reporting through quarterly reports to KLSE and the annual report to shareholders, the Directors have a responsibility to present a fair assessment of the Company's position and prospects. The Audit Committee assists the Board in scrutinising information for disclosure to ensure accuracy, adequacy and completeness. The Statement by Directors pursuant to Section 169 of the Companies Act 1965 is set out on page 33 of this annual report.

### **Internal Control**

Information on the Company's internal control is presented in the Statement on Internal Control laid out on pages 23 and 24.

### **Relationship with Auditors**

The role of the Audit Committee in relation to the external auditors may be found in the Audit Committee Report set out on page 25 and 26. The Company has always maintained a close and transparent relationship with its auditors in seeking professional advice and ensuring compliance with the accounting standards in Malaysia.

### **Statement of Compliance with the Best Practices of the Code**

The Company is committed to achieving high standards of corporate governance throughout the Company and to the highest level of integrity and ethical standards in all its business dealings. Apart from setting up of a Nomination Committee and a Remuneration Committee, the Board considers that it has complied throughout the financial year with the Best Practices as set out in the Code.

Statement made in accordance with the resolution of the Board of Directors dated 20 August 2003.

This statement is prepared as required by the Listing Requirements of the KLSE.

The Directors are required to prepare financial statements which give a true and fair view of the state of affairs of the Company as at the end of each financial year and of their results and their cash flows for that year then ended.

The Directors consider that in preparing the financial statements,

- \* the Company has used appropriate accounting policies and are consistently applied;
- \* reasonable and prudent judgements and estimates were made; and
- \* all applicable approved accounting standards in Malaysia have been followed.

The Directors are responsible for ensuring that the Company maintains accounting records that disclose with reasonable accuracy the financial position of the Company, and which enable them to ensure that the financial statements comply with the Companies Act, 1965.

The Directors have general responsibilities for taking such steps that are reasonably available to them to safeguard the assets of the Company, and to prevent and detect fraud and other irregularities.

## **Introduction**

Paragraph 15.27(b) of the Kuala Lumpur Stock Exchange Listing Requirements requires the Board of Directors of public listed companies to include in its annual report a "statement about the state of internal control of the listed issuer as a group". The Board is committed to maintaining a sound system of internal control in the Company and is pleased to provide the following statement, which outlines the nature and scope of internal control of the Company during the year.

## **Responsibility**

The Board is ultimately responsible for the Company's system of internal control which includes the establishment of an appropriate control environment and framework as well as reviewing its adequacy and integrity. Because of the limitations that are inherent in any system of internal control, this system is designed to manage, rather than eliminate the risk of failure to achieve corporate objectives. Accordingly, it can only provide reasonable but not absolute assurance against material misstatement or loss. The system of internal control covers, inter alia, risk management and financial, organisational, operational and compliance controls.

Following the publication of the Statement on Internal Control: Guidance for Directors of Public Listed Companies ("the Internal Control Guidance"), the Board confirms that there is an ongoing process for identifying, evaluating and managing significant risks faced by the Company, that has been in place for the financial year and up to the date of approval of the annual report and financial statements, and that this process is regularly reviewed by the Board and accords with the Internal Control Guidance.

## **Risk Management Framework**

The Board with the assistance of the Internal Audit Department undertook to identify and evaluate the principal business risk of the Company, assessing the likelihood of material exposures and identifying the measures taken to manage these risks.

The Board has initiated an ongoing process of identifying, evaluating, and managing significant risks encountered by the Company in a structured manner. This would entail establishing procedures for reporting and monitoring of risks and controls. Regular review will be conducted on a yearly basis with additional reviews to be carried out as and when required.

These initiatives would ensure that the Company have in place a formalised ongoing process to identify, measure and manage the significant risks affecting the business of the Company.



### **Key Processes of Internal Control**

The Board fully supports the contents of the Internal Control Guidance and, with the assistance of the Executive Directors who exercise close supervision on the day-to-day running of the operations, undertook to review the existing risk management process in place within the various operating businesses, with the aim of formalising the risk management functions across the Company.

The key processes that the Directors have established in reviewing the adequacy and integrity of the system of internal control, are as follows:

- \* The Board has developed a monitoring and reporting process to continuously evaluate and monitor the significant risks in a formalised manner, which entail establishing procedures for reporting and monitoring of risks and controls. Regular reviews will be conducted with additional reviews as and when required.
- \* Budgets, containing financial and operating targets, capital expenditure proposals and performance indicators, are reviewed and approved by the Executive Directors and managers of the Company and subsequently by the Board.
- \* Performance reports are regularly provided to Directors and discussed at Board meetings. The Board regularly receives reports from the management covering financial results, business and corporate development activities as well as legal and regulatory matters.
- \* To further provide the Board with much of the assurance it requires regarding the effectiveness and adequacy of the system of internal controls, an internal audit department that reports directly to the Audit Committee was established during the year. The internal auditor had conducted a review of the overall system of internal controls and will continue to independently review and report periodically to the Audit Committee on the risk identification procedures and control processes implemented by the management.

The Board believes that the development of the system of internal control is an ongoing process and has taken steps throughout the year to improve its internal control system and will continue to do so.

Statement made in accordance with the resolution of the Board of Directors dated 20 August 2003.

## Membership

The present members of the Audit Committee comprise:

**Datuk Haji Hasan bin Malek** (Chairman)

*Senior Independent Non-Executive Director*

**Datuk Dr. Awang Adek bin Hussin**

*Independent Non-Executive Chairman*

**Lim Eng Thong**

*Executive Director*

All members of the Committee have a working familiarity with basic finance and accounting practices, and one of its members i.e. Mr. Lim Eng Thong is a member of the Malaysian Institute of Certified Public Accountants.

## Duties and Responsibilities

The duties and responsibilities of the Committee shall include the following:

- review the following and report to the Board of Directors:-
  - a) with the external auditors, the audit plan;
  - b) with the external auditors, their evaluation of the system of internal controls;
  - c) with the external auditors, their audit report;
  - d) the assistance and cooperation given by the employees of the Company to the external auditors;
  - e) the adequacy of the scope, functions and resources of the internal audit functions and that it has the necessary authority to carry out its work;
  - f) the internal audit programme, processes, the results of the internal audits, processes or investigation undertaken and whether or not appropriate action is taken on the recommendations of the internal audit function;
  - g) the quarterly results and year end financial statements, prior to the approval by the Board of Directors, focusing particularly on:-
    - i. changes in or implementation of major accounting policy changes;
    - ii. significant and unusual events; and
    - iii. compliance with accounting standards and other legal requirements;
  - h) any related party transaction and conflict of interest situation that may arise within the Company including any transaction, procedure or course of conduct that raise questions of management integrity;
  - i) any letter of resignation from the external auditors; and
  - j) whether there is any reason (supported by grounds) to believe that the Company's external auditors are not suitable for re-appointment; and
- recommend the nomination of a person or persons as external auditors.

## Authority

The Committee is authorised by the Board to investigate any matter within its terms and reference, and to seek and accept independent professional advice in the performance of its duties at the cost of the Company.

The Committee should have full and unlimited access to any information pertaining to the Company. The Committee shall have direct communication channels with the external auditors and with senior management of the Company and shall be able to convene meetings with the external auditors whenever it considers necessary.

## Meetings

A minimum of 4 meetings per year is planned, or more frequently as circumstances dictate. As part of its duties to foster open communication, the internal auditor and a representative of the external auditors (if required) will normally attend the meetings. Other Board members and senior management staff may attend upon invitation of the Committee. However, the Committee will meet at least once a year without the presence of the Executive Directors.

2 meetings were held during the year and the details of attendances of each committee members are as follows.

COMMITTEE MEMBERS	NO. OF MEETINGS ATTENDED	% ATTENDANCE
<b>Datuk Haji Hasan bin Malek</b>	2	100%
<b>Datuk Dr. Awang Adek bin Hussin</b>	1	50%
<b>Lim Eng Thong</b>	2	100%

The Committee met twice during the year for the following purposes:

- Reviewed the quarter financial statements
- Reviewed the year-end financial statements
- Discussed with external auditors the audit plan and scope of audit for the year
- Reviewed the reports of the external auditors
- Reviewed the risk management framework prepared by the management
- Reviewed the audit plan and adequacy of resources of the internal audit department
- Reviewed the reports prepared by the internal auditor
- Reviewed related party transactions

## Internal Audit Function

The Audit Committee is aware of the fact that an independent and adequately resourced internal audit function is essential to assist the assurance it requires regarding the maintenance of a sound system of internal control. As such, an internal audit department that reports directly to the Committee was established during the year.

The objective of the internal audit function is to provide independent assurance to the Board that the Company's system of internal control is adequate and functioning as intended.

During the financial year, the internal audit activities have been carried out according to the internal audit plan, which have been approved by the Audit Committee.

**Share Buyback**

During the financial year, the Company did not enter into any share buyback transaction.

**Options or Warrants**

During the financial year, 390,500 new ordinary shares were issued arising from the conversion of 390,500 options issued pursuant to the Company's Employees' Share Options Scheme at an exercise price of RM0.45 per share.

**American Depository Receipt ("ADR") or Global Depository Receipt ("GDR") Programme**

During the financial year, the Company did not sponsor any ADR or GDR programme.

**Imposition of Sanctions and Penalties**

There were no sanctions or penalties imposed on the Company, Directors or management by the relevant regulatory bodies during the financial year.

**Non-Audit Fees**

The amount of non-audit fees paid to the external auditors by the Company for the financial year amounted to RM96,998.

**Profit Estimates, Forecast or Projection**

The Company did not issue any profit estimates, forecast or projection for the financial year.

**Profit Guarantee**

The Company did not issue any profit guarantee during the financial year.

**Material Contract Involving Directors and Major Shareholders**

There are no material contracts involving Directors and major shareholders during the financial year.

**Recurrent Related Party Transactions of a Revenue or Trading Nature**

Details of Recurrent Related Party Transactions of a revenue or trading nature is disclosed in Note 23 to the financial statement on page 52.

**Revaluation Policy**

The Company did not revalue any of its property, plant and equipment.