

AUDIT COMMITTEE REPORT

Composition

The members of the Committee are:

Dato' Ab. Halim Bin Mohyiddin
(Chairman/Independent Non-Executive Director)
Tan Sri Datuk Amar Leo Moggie
(Member/Independent Non-Executive Director)
Christian Storm
(Member/Non-Independent Non-Executive Director)

Meetings

The Audit Committee met five times during the financial year ended 31 December 2006 and these meetings were attended by all the members. The Chief Executive Officer, Chief Financial Officer, Head of Quality & Assurance and representatives of the external auditors were also invited to attend and brief the members on specific issues.

The Audit Committee has met once with the external auditors separately without the presence of management. In addition, the Audit Committee Chairman meets periodically with Quality & Assurance Department to obtain updates on the activities of the function without the presence of management.

Summary of Activities

During the year, the Audit Committee has carried out its duties in accordance with its terms of reference. Other key issues reviewed by the Committee were as follows:

- Progress on the implementation of Sarbanes Oxley Act requirements
- The Group's Risk Management Programme including the Business Continuity Planning and Information Security Activities
- Revenue Assurance activities including ensuring that the findings are adequately addressed by management

Internal Audit Function

Internal audit activities are conducted through the Quality & Assurance ("Q&A") Department which reports to the Audit Committee and assists the Committee in the discharge of its duties and responsibilities. Its role is to provide an independent and reasonable assurance on the adequacy, integrity and effectiveness of the Group's overall system of internal control, risk management and governance. Further details of the activities of the Q&A Department are set out in the Statement on Internal Control on pages 48 to 49.

Terms of Reference

1. Membership

The Committee shall be appointed by the Board from amongst the Directors and shall consist of not less than three members, a majority of whom shall be Independent Directors and at least one member of the Committee must be a member of the Malaysian Institute of Accountants or such other qualifications and experience as approved by Bursa Malaysia Securities Berhad.

A quorum shall consist of two members and a majority of the members present must be Independent Directors.

If a member of the Audit Committee resigns, dies or for any other reason ceases to be a member with the result that the number of members is reduced to below three, the Board of Directors shall, within three months of that event, appoint such number of new members as may be required to make up the minimum number of three members.

2. Chairman

The Chairman of the Committee shall be an Independent Director appointed by the Board. He shall report on each meeting of the Committee to the Board.

3. Secretary

The Company Secretary shall be the Secretary of the Committee and shall be responsible, in conjunction with the Chairman, for drawing up the agenda and circulating it, supported by explanatory documentation to the Committee members prior to each meeting.

The Secretary shall also be responsible for keeping the minutes of meetings of the Audit Committee and circulating them to the Committee members and to the other members of the Board of Directors.



4. Frequency of Meetings

Meetings shall be held not less than four times a year and will normally be attended by the Officer charged with the responsibilities of the Group's finance and Head of Quality & Assurance. The presence of external auditors will be requested if required and the external auditors may also request a meeting if they consider it necessary.

The Committee may regulate its own procedure in lieu of convening a formal meeting by means of video or teleconferencing or any other means of audio or audio-visual communications.

5. Authority

The Committee is authorised by the Board to investigate any activity within its terms of reference and shall have unrestricted access to both the internal and external auditors and to all employees of the Group. The Committee is also authorised by the Board to obtain external legal or other independent professional advice as necessary.

The Committee is also authorised to convene meetings with the external auditors excluding the attendance of the executive members of the Committee, wherever deemed necessary.

Audit Committee Report (cont'd)

Terms of Reference (cont'd)

6. Duties

The duties of the Committee shall be:

- (a) To consider the appointment of external auditors, the audit fee and any questions of resignation or dismissal including recommending the nomination of person or persons as external auditors.
- (b) To discuss with the external auditors where necessary, on the nature and scope of audit and to ensure coordination of audit where more than one audit firm is involved as well as with the Quality & Assurance Department.
- (c) To review the quarterly results and year-end financial statements prior to the approval by the Board, focusing on:
 - going concern assumption
 - compliance with accounting standards and regulatory requirements
 - any changes in accounting policies and practices
 - significant issues arising from the audit
 - major judgemental areas
- (d) To prepare Audit Committee Report at the end of each financial year.
- (e) To discuss problems and reservations arising from the interim and final external audits, and any matters the external auditors may wish to discuss (in the absence of management, where necessary).
- (f) To review the external auditors' management letter and management's response.
- (g) To review any related party transaction and conflict of interest situation that may arise within the Company or Group including any transaction, procedure or course of conduct that raises question of management integrity.
- (h) To do the following in respect of the Quality & Assurance Department:
 - Review the organisation, responsibilities and resources of the Department in respect of the assurance function and that it has the necessary authority to carry out its work
 - Approve the annual plan for the Department and review results of these activities and where necessary, ensure that appropriate action is taken on the recommendations of the activities
 - Concur with the appointment, assessment and termination of the Head of Quality & Assurance and key assurance positions
- (i) To monitor related party transactions entered into by the company and its subsidiaries, and to ensure that the Directors report such transactions annually to shareholders via the annual report.
- (j) To review and monitor the effectiveness of internal control systems and to evaluate the systems with the external auditors.
- (k) To carry out such other responsibilities, functions or assignments as may be defined jointly by the Audit Committee and the Board of Directors from time to time.
- (l) In compliance with Paragraph 15.17 of Bursa Malaysia Securities Berhad ('Bursa Securities') Listing Requirements, where the Committee is of the view that a matter reported by it to the Board has not been satisfactorily resolved resulting in a breach of the Listing Requirements, the Committee must promptly report such matter to Bursa Securities.



Fu-Yoh!