

audit committee **report**

Terms of Reference

In line with the best practice of Corporate Governance, your Audit Committee ("AC") is governed by the following terms of reference:

Constitution

Your Board of Directors ("BOD") established the AC on 22 September 1993 to:

- a. Assist in discharging your BOD's responsibilities relating to your Company's management of internal controls, accounting policies and financial reporting;
- b. Provide by way of regular meetings, a line of communication between your BOD and your Company's internal and external auditors.

Membership

- a. Your AC consists of four members. Three members of your AC are Independent Non-Executive Directors to fully comply with paragraph 15.10 of the Listing Requirements of Bursa Malaysia Securities Berhad ("BMSB").
- b. The Chairman is one of the appointed Independent Non-Executive Directors.
- c. At least one (1) member:
 - i. Must be a member of the Malaysian Institute of Accountant ("MIA"); or
 - ii. If he is not a member of the MIA, he must have at least three (3) years of working experience and:
 - He must have passed the examination specified in Part I of the 1st Schedule of the Accountants Act 1967; or
 - He must be a member of one of the Association of Accountants specified in Part II of the 1st Schedule of the Accountants Act, 1967.

Quorum and Frequency of Meeting

- a. A quorum shall be the majority of Independent Non-Executive Directors.
- b. Meetings shall be held at least four (4) times each calendar year, usually preceding the meetings of your BOD.
- c. The Internal Audit Manager shall be the secretary of your AC.
- d. The external auditors have the right to appear or may request a meeting if they consider it necessary in any AC meeting.
- e. At least twice a year, your AC shall meet with the external auditors without any Non-Independent member present.
- f. The Managing Director and the Finance Manager shall attend the quarterly meetings although they do not have any voting rights.

Authority

- a. Your AC is authorised by your BOD to investigate any activity within its terms of reference and shall have unrestricted access to information it requires from any employee, and all employees are directed to co-operate with any request made by your AC.
- b. Your AC is authorised by your BOD to obtain outside legal or other independent professional advice and to secure the attendance of outsiders with relevant experience and expertise whenever it deems necessary.



Duties and Responsibilities

The following are the main duties and responsibilities of your AC, and where appropriate, report to your BOD on the following:

a. Risk Management & Internal Control

- i. Review the adequacy of and to provide independent assurance to your BOD on the effectiveness of the Company's risk management process.
- ii. Evaluate the quality and effectiveness of your Company's internal controls and management information systems, including compliance with applicable laws, rules and guidelines.
- iii. Recommend to your BOD the Statement of Internal Control and any changes to the said statement.

b. Financial Reporting

- i. Review the quarterly, half-yearly and annual financial statements before submission to your BOD, focusing particularly on:
 - Any changes in accounting policies and practices;
 - Significant or material adjustments with financial impact arising from the audit;
 - Significant unusual events or exceptional activities;
 - Financial decision-making with the presumptions of significant judgments;
 - The going concern assumptions; and
 - Compliance with approved accounting standards, stock exchange and other regulatory requirements.
- ii. Propose best practices on disclosure in financial results and annual reports of your Company in line with the principles set out in the Malaysian Code of Corporate Governance, other applicable laws, rules, directives and guidelines.

c. External Audit

- i. Recommend the appointment and audit fee of the external auditors to your BOD.
- ii. Make appropriate recommendations to your BOD on matters of resignation or dismissal of the external auditors.
- iii. Review and discuss the nature and scope of the external audit strategy and plan.
- iv. Review and discuss issues arising from external auditors' interim and final letters of recommendation to management, including management responses and the external auditors' evaluation of the system of internal control any other matters the external auditors may wish to discuss (in the absence of management, if required)

d. Internal Audit

- i. Review the scope, function, resources and authority of the internal audit function in carrying out its work.
- ii. Review the risk-based internal audit plans and programmes.
- iii. Ensure co-ordination between the internal and external auditors.
- iv. Review the major findings reported by internal audit and follow up on management's implementation of the recommended actions.
- v. Assess performance of services provided by the internal audit function.

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e. Significant Related Party Transactions (“RPT”)

Review and recommend to your BOD matters regarding significant RPT including disclosures and situations involving potential conflict of interest that may arise within your Company, including any transaction, procedure or course of conduct that raises questions on management integrity.

f. Other Matters

- i. To report to BMSB, if your AC views that a matter resulting in a breach of the listing requirements of BMSB reported by your AC to your BOD has not been satisfactorily resolved by your BOD.
- ii. Such matters as your AC considers appropriate or as defined by your BOD from time to time.

Attendance of Meetings

Your AC held five (5) meetings in the year 2008. The attendance records are as follows:

Member	Attendance	Percentage
Dato’ Jaffar Indot (Chairman)	5/5	100%
Thomas Michael Taylor	5/5	100%
Dato’ Seri Talaat Bin Haji Husain	5/5	100%
Tan Sri Saw Huat Lye – Resigned on 15 May 2008	3/3	100%
Tan Sri Datuk Clifford Francis Herbert – Appointed on 1 June 2008	2/2	100%

Your Company’s Managing Director, Finance Manager and external auditors (as and when required) attended these meetings to brief your AC on specific issues. Chairman of your AC and the Independent Directors had three meetings with the external auditors on 14 August, 12 November 2008 and 17 February 2009 to discuss the results of the audit, including matters related to independence of the external auditors and any other observations they may have during the audit process.

Minutes of meeting of the AC were circulated to all members and significant issues are highlighted by your AC Chairman at your BOD meeting for further discussion and deliberation.

Highlights of Activities

During the financial year 2008, your AC carried out the following activities:

Internal Audit

- a. The Assurance Plan 2008 consisted of 16 internal audit/review. Your AC had reviewed and endorsed the Assurance Plan to ensure adequate scope and comprehensive coverage over the activities of your Company.
- b. Reviewed all internal audit/review report in 2008 as listed below on a range of business processes and regulatory compliance. Where appropriate, your AC had directed management to rectify and improve internal control processes based on the auditors’ recommendations and suggestions for improvement.

Name of Audit/Review	Period Conducted
Capital Project and Global Processes Audit	Quarter 2
ISO 9001 Surveillance/ Recertification Audit	Quarter 3
ISO 14001 Surveillance/ Recertification Audit	Quarter 3
OHSAS 18001 Surveillance/ Recertification Audit	Quarter 3
ISO 17025 Surveillance/ Recertification Audit	Quarter 3
Related Party Transaction Audit	Quarter 3
Major Turnaround Post Implementation Review	Quarter 3
Security Review	Quarter 3
Financial Management Information Process and Controls Review	Quarter 4
Group Business Assurance Letter Review	Quarter 4
Inland Revenue Board Tax Audit	Quarter 4
Focused Asset Integrity Review on Pressure Equipment Integrity	Quarter 4
Shell Aviation Quality Assurance Audit	Quarter 4
Process Safety Assessment on Complex 2	Quarter 4
Process Safety Assessment on Off Plot Engineering and Maintenance	Quarter 4
Contract Audit	Quarter 4

- c. Monitored the corrective actions on outstanding audit issues to ensure that all the key risks and control lapses have been addressed.

**Financial Reporting**

- a. Reviewed the quarterly unaudited financial results before recommending them for approval to your BOD.
- b. Reviewed the annual audited financial statement with the external auditors prior to submission to your BOD for their approval. The review was to ensure compliance with:
 - i. Provisions of the Companies Act 1965;
 - ii. Listing Requirements of BMSB;
 - iii. Applicable approved accounting standards; and
 - iv. Other legal and regulatory requirements

External Audit

- a. Reviewed and approved external auditors audit plan, audit strategy and scope for the year.
- b. Evaluate the performance and effectiveness of the external auditors and make recommendations to your BOD on their appointment.
- c. Reviewed the results of the annual audit report and management letter of the external auditors, including the management's response.

Risk Management and Internal Control

Reviewed and approved your Company's risk profile and ensure compliance to Shell Group Risk Management Manual.

Whistle Blowing

Reviewed the whistle blowing cases (if any) reported via Shell Global Helpline and ensure the appropriate action were taken by Shell Business Integrity Department in addressing the concern reported. There were no whistle blowing cases reported in 2008.

Significant Related Party Transactions

There was no significant related party transaction, which required announcement to BMSB entered into by your Company in 2008.

Internal Audit Function

Your Company outsourced the Internal Audit Function ("IAF") to its affiliate company, Shell Malaysia Limited, via a Service Level Agreement. The Internal Audit Manager reports to your AC.

The IAF assists management to identify, evaluate significant risks and develop risk-based audit plans for approval by your AC. The IAF provides independent assessment and reasonable assurances on areas of operation reviewed and advises on the best practices that will improve and add value to your Company.