

# ANNUAL REPORT 2011

Integrated Logistics Berhad  
(229690 K)



# CONTENTS

Corporate Information	2
Corporate Structure	3
Group Financial Highlights	4
Chairman's Statement	6
Directors' Profile	12
Corporate Governance Statement	16
Other Disclosures	21
Audit Committee Report	23
Statement On Internal Control	26
Statement Of Directors' Responsibilities	28
Reports And Financial Statements	30
Properties Of ILB Group	123
Analysis Of Shareholdings	124
Notice Of Annual General Meeting	127
Statement Accompanying Notice Of AGM	131
Proxy Form	133



# CORPORATE INFORMATION

## BOARD OF DIRECTORS

**Datuk Karownikaran @ Karunakaran**  
Chairman  
Independent Non-Executive Director

**Tee Tuan Sem**  
Executive Director  
Chief Executive Officer

**Makoto Takahashi**  
Executive Director

**Tai Me Teck**  
Executive Director

**Wan Azfar bin Dato' Wan Annuar**  
Non-Independent Non-Executive Director

**Dato' Haji Wazir bin Haji Muaz**  
Independent Non-Executive Director

**Lee Kay Loon**  
Independent Non-Executive Director

### COMPANY SECRETARY

Amarjit Singh A/L Banta Singh  
FCCA, ACIS, CA(M)

### REGISTERED OFFICE

No. 6, Jalan Bangsar Utama 9  
Bangsar Utama  
59000 Kuala Lumpur  
Tel. No.: 03-2287 6833  
Fax. No.: 03-2287 1032

### BUSINESS OFFICE

Indera Subang Condominium  
Ground Floor, Club House  
Jalan USJ 6/2L  
47610 UEP Subang Jaya  
Selangor Darul Ehsan  
Tel. No.: 03-5631 7377  
Fax. No.: 03-5631 6403

### SHARE REGISTRAR

Symphony Share Registrars Sdn Bhd  
Block D13, Pusat Dagangan Dana 1  
Jalan PJU 1A/46  
47301 Petaling Jaya  
Selangor Darul Ehsan  
Tel. No.: 03-7841 8000  
Fax. No. 03- 7841 8008

### SOLICITOR

Messrs Kadir, Andri & Partners  
8th Floor, Menara Safuan  
No. 80, Jalan Ampang  
50450 Kuala Lumpur

### AUDITORS

Messrs Moore Stephens AC (AF.1826)  
Chartered Accountants  
A-37-1, Level 37, Menara UOA Bangsar  
No. 5, Jalan Bangsar Utama 1  
59000 Kuala Lumpur

### STOCK EXCHANGE LISTING

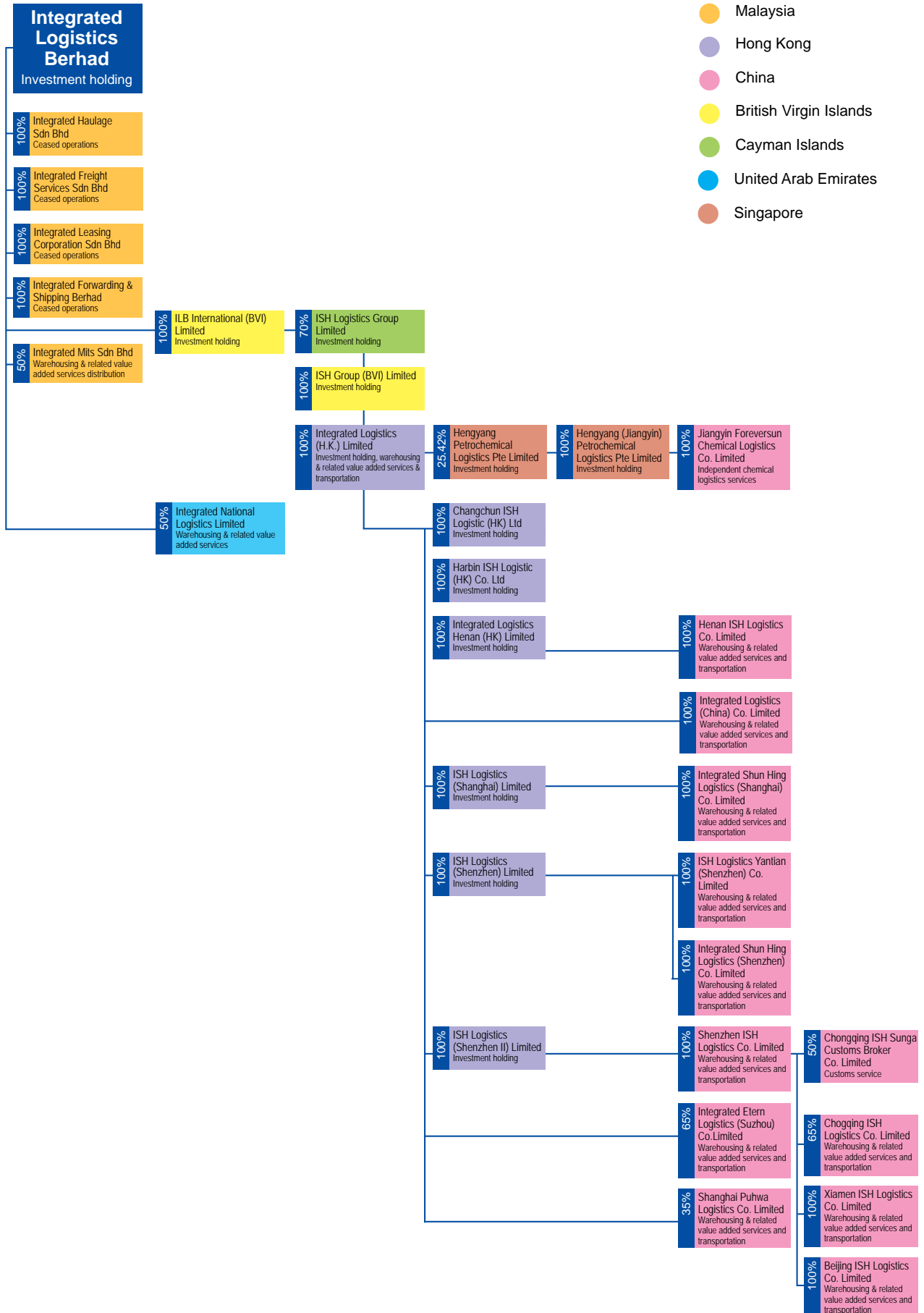
Main Market of Bursa Malaysia Securities  
Berhad

### PRINCIPAL BANKERS

**OCBC Bank (Malaysia) Berhad**  
Menara OCBC  
18, Jalan Tun Perak  
50050 Kuala Lumpur

**CIMB Bank Berhad**  
CIMB Empire Gallery Subang Jaya  
G01, Empire Shopping Gallery  
Jalan SS 16/1, Subang Jaya  
47500 Petaling Jaya  
Selangor Darul Ehsan

# CORPORATE STRUCTURE



- Malaysia
- Hong Kong
- China
- British Virgin Islands
- Cayman Islands
- United Arab Emirates
- Singapore

## GROUP FINANCIAL HIGHLIGHTS

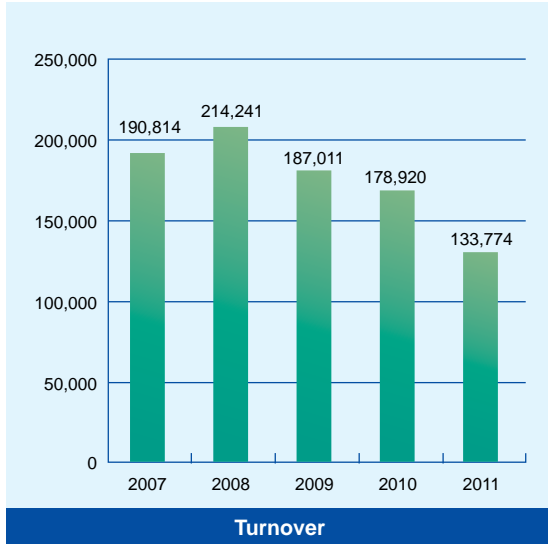
	2007 RM'000	2008 RM'000	2009 RM'000	2010 RM'000	2011 RM'000
<b>Turnover</b>	190,814	214,241	187,011	178,920	133,774
<b>Profit before taxation</b>	14,865	31,757	10,417	23,645	18,542
<b>Net Profit/(Loss) Attributable to Shareholders</b>	8,218	15,859	(4,121)	18,668	13,002
<b>Paid-up Capital</b>	197,026	197,026	197,026	197,026	197,026
<b>Total Assets</b>	643,884	776,710	766,792	631,579	644,942
<b>Shareholders Fund</b>	333,489	384,219	375,487	364,098	377,077
<b>Net Earnings Per Share (sen)</b>	4.5	8.1	(2.2)	9.8	7.1
<b>Net Assets Per Share (RM)</b>	1.89	2.32	2.40	2.26	2.52
<b>Gross Dividend rate (%)</b>	3%	2%	3%	8.5%	5%*
<b>Share Dividend (Ratio)</b>	-	-	-	1 : 20	-
<b>Share Price (31 Dec)</b>	1.04	0.49	0.79	0.96	0.68

*Note:*

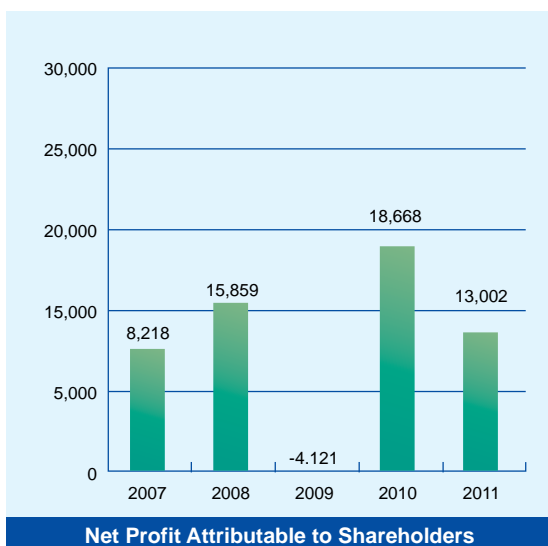
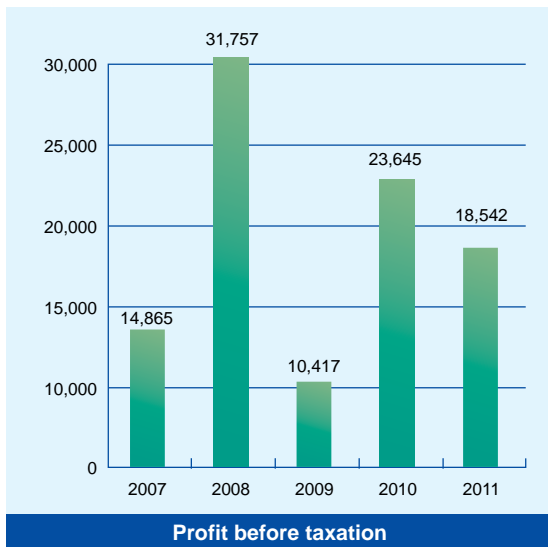
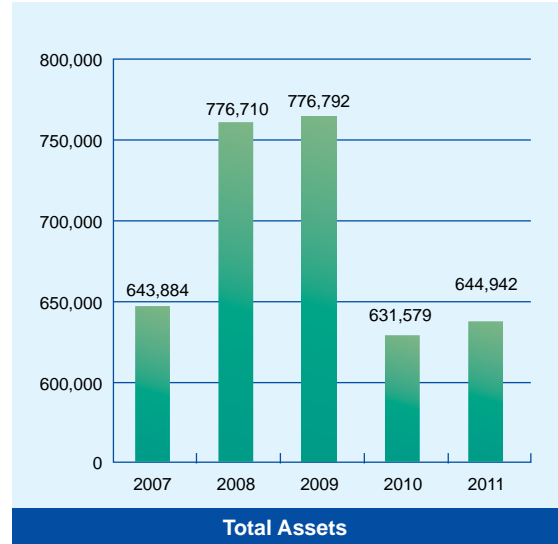
\* The Board proposed a first and final dividend of 5% gross per share less 25% Malaysian income tax for the financial year ended 31 December 2011, subject to Shareholders' approval at the Annual General Meeting to be convened.

# GROUP FINANCIAL HIGHLIGHTS

## INCOME STATEMENT (RM'000)



## BALANCE SHEET (RM'000)



## CHAIRMAN'S STATEMENT



# CHAIRMAN'S STATEMENT

**Dear Shareholders,**

On behalf of the Board Directors of Integrated Logistics Berhad (ILB), I am pleased to present the Annual Report for the year 2011, incorporating the Audited Financial Statements of the Group and the Company for the financial year ended 31 December 2011.

## CHAIRMAN'S STATEMENT



### PERFORMANCE REVIEW

The year 2011 marked a turning point in the Group's operations where almost the entire revenue was derived from the Group's China operations following the completion of the divestment of the Malaysian operations in late 2010.

The Group has been gradually utilizing the proceeds of the sale of the Malaysian operations to strengthen its foothold overseas, particularly in China & Dubai. In China, the Group has established its logistics operations in strategic cities including Shenzhen, Shanghai, Beijing, Tianjin, Chongqing, Xiamen, Wujiang and Xinxiang. The wide logistics network across China will enable the Group to service a wider range of customers as well as customers requiring nation-wide logistics services.

To diversify into the higher profit margin chemical logistics industry in China, the Group has utilized part of its sale proceeds to subscribe for a Rights Issue by the Group's 25.4% associate, Hengyang Petrochemical Logistics Ltd (Hengyang). Hengyang is one of the leading independent petrochemical logistics groups in China with operations along the Yangtze River, and is listed on the Singapore Stock Exchange's Catalist Board.

A portion of the sale proceeds have also been utilized for further investment in the Group's Dubai logistics warehouse project which is slated to come onstream and start contributing to the Group's revenues by the end of financial year 2012. The



## CHAIRMAN'S STATEMENT

full impact of this investment will only be felt from financial year 2013 onwards.

The Group recorded a Group Revenue of RM 134 million in 2011 compared with RM 179 million (inclusive RM 59 million from the discontinued Malaysian operations) in 2010. The Group Pre-tax profit for the year amounted to RM 18.5 million compared with RM 23.6 million in the previous year, giving earnings per share of 7.1 sen compared with 9.8 sen previously (which included an exceptional gain on sale of the Malaysian operations). Despite the slowdown in the overall economy, the revenue from China operations recorded an 11.6% growth in 2011.

### SHARE BUY-BACK

During the financial year ended 31 December 2011, the company purchased a total of 9,052,300 Ordinary shares of RM1.00 each costing RM 7,839,406 at an average price of RM 0.866 per share. With this purchase, the total number of treasury shares amounted to 18,783,700 as at 31 December 2011. Subsequent to the year end, the Company made further buy-backs and on the 3 February 2012, the Board authorized the cancellation of 19 million treasury shares. This cancellation is expected to enhance the Earnings Per Share of the Group and long term investors are expected to see a corresponding increase in the value of their investments in the Company.



## CHAIRMAN'S STATEMENT

### DIVIDENDS

The Board is pleased to recommend for shareholders' approval a first and final dividend of 5.0 sen per share less 25% income tax for the financial year ended 31 December 2011.

### REVIEW OF OPERATIONS

#### China

The total revenue of the Group's operations in China increased by 11.6% to RM134 million in 2011. The increase in revenue was due mainly to the additional revenues generated from warehouse rental and value added services and

transportation income from the Group's new operations in Beijing, Chongqing, and Xiamen. The Group has also completed its logistics warehouses in Henan Province which are expected to contribute to the Group's revenue by the end of 2012.



## CHAIRMAN'S STATEMENT



### Dubai

The Group has also completed the construction of its logistics complex in Dubai. The complex includes coldroom facilities which are currently being commissioned and the facilities are expected to contribute to the Group's revenue by the end of 2012.

With the disposal of the Group's operations in Malaysia, the Group has channelled its resources to higher yielding logistics markets in China and Dubai which are expected to contribute positively to the Group's profitability in the coming years.

### PROSPECTS

#### China

China's Gross Domestic Product (GDP) growth is projected to slowdown in 2012 as compared to previous years and coupled with increasing labour costs, the year 2012 is expected to be a challenging year for the Group. In view of the economic slowdown in China, the Group has taken several measures including expanding the customers' base in its newly expanded operating centres to sustain the revenue and profit of the Group.

## CHAIRMAN'S STATEMENT



### Dubai

The Group's warehouse investment in Dubai is located strategically in close proximity to Dubai's Jebel Ali Port and the newly completed Dubai cargo airport. The warehouses with coldroom facilities owned by a jointly controlled entity of the Group are well positioned to serve the regional logistics distribution markets in the Middle-East where demand for coldroom facilities are high in view of its strategic location.

### ACKNOWLEDGEMENTS

I wish to express the Board's appreciation to the management and staff of the Group for their continuing dedication, commitment and diligence during the year. Our sincere appreciation is also extended to our valued customers, business associates, shareholders and other stakeholders.

*Datuk Karownikaran @  
Karunakaran*

CHAIRMAN

## DIRECTORS' PROFILE

**Datuk Karownikaran @ Karunikaran**  
Chairman  
Independent Non-Executive Director (Malaysian)



Datuk Karownikaran @ Karunikaran, aged 62, was appointed to the Board on 1 July 2008 as an Independent Non-Executive Director. He graduated from University of Malaya with a Bachelor of Economics (Accounting) Hons. Degree in 1972. He was formerly the Director General of MIDA and retired in June 2008, after serving 36 years and had held various important and prominent positions. He had also served as Director of MIDA Singapore, Cologne (Germany) and London (England). He was also responsible for co-ordinating the development of the manufacturing and service sectors including promoting domestic and foreign investments in Malaysia.

Datuk Karunikaran is also the Chairman of the Nomination and Remuneration Committees and he also sits on the Boards of Lion Corporation Berhad, Maybank Investment Bank Berhad, KNM Group Berhad, Chemical Company of Malaysia Berhad and IOI Corporation Berhad as an Independent Non-Executive Director.

Datuk Karunikaran does not have interest in the securities of the Company and its subsidiaries. He has no family relationships with any other Director and/or major shareholder of the Company.

**Tee Tuan Sem**  
Chief Executive Officer  
Executive Director (Malaysian)



Mr Tee Tuan Sem, aged 60, the Chief Executive Officer, was appointed to the Board on 9 June 1992. He is a member of the Malaysian Institute of Accountants and a Fellow Member of the Chartered Association of Certified Accountants. He joined Tet. O Chong & Co., an established firm of public accountants, in 1976 and joined Integrated Forwarding & Shipping Berhad as Chief Accountant in 1981. He was promoted to the position of Finance Director in 1998 and subsequently appointed as the Chief Executive Officer in 2001. He does not hold any other directorships of public companies.

Mr Tee has a direct interest in 9,390,070 fully paid ordinary shares of RM1-00 each in the Company. He also has an indirect interest in 353,640 fully paid ordinary shares of RM1-00 each in the Company held through his wife, Yang Chiew Bi. He has no family relationship with any other Director and/or major shareholder of the Company.

## DIRECTORS' PROFILE

### **Makoto Takahashi** Executive Director (Japanese)



Mr Makoto Takahashi, aged 44, Executive Director, was appointed to the Board on 17 September 2001. He holds a Bachelor of Science degree from the University of San Francisco. He has 2 years working experience with a Japanese logistics company in Kobe, Japan and 5 years working experience with a trading company in Hong Kong. He joined ILB in 1998 as General Manager of Sales & Marketing and was subsequently appointed as Executive Director of ILB on 17 September 2001.

Mr Makoto has a direct interest in 3,711,943 fully paid ordinary shares of RM1-00 each in the Company and does not hold any other directorships of public companies. He has no family relationship with any other Director and/or major shareholder of the Company except that he is the son of Dato' Yasuo Takahashi, the Group Corporate Advisor of the Company.

### **Tai Me Teck** Executive Director (Malaysian)



Mr Tai Me Teck aged 48, Executive Director, was appointed to the Board on the 23 February 2009, He holds a Bachelor of Business Administration (major in accounting) from University of IOWA, United States. He joined Integrated Logistics Berhad in 1989 as Manager of warehouse operations and in 1995 was transferred to oversee the overseas operations. He is responsible for the development of corporate strategies, corporate planning and overall management of the Group of companies in Hong Kong and The People's Republic of China.

Mr Tai has a direct interest in 466,200 fully paid ordinary shares of RM1-00 each in the Company and he does not hold any other directorships of public companies. He has no family relationship with any other Director and/or major shareholder of the Company.

## DIRECTORS' PROFILE

### **Wan Azfar bin Dato' Wan Annuar** Non-Independent Non-Executive Director (Malaysian)



En Wan Azfar bin Dato' Wan Annuar, aged 62, was appointed to the Board as an Executive Director on 17 September 2001. He resigned as Executive Director on 26 March 2003 but remained as a Non-Executive Non-Independent Director. A Naval Officer by training, having been through Britannia Royal College, Dartmouth, United Kingdom and HMS Mercury, Royal Navy's School of Maritime Operations, Petersfield, United Kingdom, he has some 16 years service at sea and ashore. His military appointments included 2 warship commands, staff duties at Ministry of Defence, Kuala Lumpur, Naval Headquarters in Singapore and as Naval Attache/Advisor at the Malaysian High Commission, London. After leaving the Royal Malaysian Navy, he joined Malayan United Industries Berhad group of companies and pioneered the hotel division.

En Wan Azfar is also a member of the Audit and Nomination Committees and does not hold any other directorships of public companies. He has an indirect interest in 306,884 fully paid ordinary shares of RM1-00 each in the Company. He has no family relationship with any other Director and/or major shareholder of the Company.

### **Dato' Haji Wazir bin Haji Muaz** Independent Non-Executive Director (Malaysian)



Dato' Haji Wazir bin Haji Muaz, aged 61, was appointed to the Board on 5 November 2007 as an Independent Non-Executive Director. He holds a Masters in Public Administration (M.P.A.) from American University Washington D.C. USA, Ijazah Sarjana Muda Sastera (Kepujian), University Malaya and a Diploma in Textile Technology, Salford College of Technology, England. He was formerly the Deputy Director General of Royal Customs and Excise, Malaysia, and retired in May 2007, after having served for 34 years. During his tenure, he had introduced several changes in the Customs working procedures namely Golden Counter, Pre-clearance and others. He had held various important and prominent positions dealing in all aspects of Customs enforcement.

Dato' Haji Wazir is also a member of the Audit, Nomination and Remuneration Committees and does not hold any other directorships of public companies. He does not have interest in the securities of the Company and its subsidiaries. He has no family relationship with any other Director and/or major shareholder of the Company.

## DIRECTORS' PROFILE

### Lee Kay Loon

Independent Non-Executive Director  
(Malaysia)



Mr Lee Kay Loon aged 60, was appointed to the Board as an Independent Non-Executive Director on the 1 June 2010. He is a fellow of the Association of Chartered Certified Accountants (FCCA), member of the Institute of Chartered Secretaries & Administrators (ICSA) and member of the Malaysia Institute of Accountants (MIA). Mr Lee commenced his career with RISDA in 1977. He then joined Public Bank Berhad as an Internal Audit Officer before joining Prudential Assurance Malaysia Berhad in 1980. He held various important and prominent positions in Prudential and retired in 2007 after a career spanning 27 years. His last position was Director of Project Management.

Mr Lee is also the Chairman of the Audit Committee and a member of the Remuneration Committee. He does not hold any directorships of other public companies. He does not have any interest in the securities of the Company and its subsidiaries. He has no family relationship with any other Director and/or major shareholder of the Company.

#### Notes

1. *None of the Directors have entered into any transaction, whether directly or indirectly, which has a conflict of interest with the Company.*
2. *None of the Directors have any convictions for any offences within the past 10 years other than traffic offences.*



## CORPORATE GOVERNANCE STATEMENT

The Board of Directors remains committed to subscribe to the principles of good corporate governance that is central to the effective operation of the Company and to ensure the highest standards of accountability and transparency.

The Board is pleased to report below on the extent to which the principles and best practices of the Code were applied throughout the financial year ended 31 December 2011.

### BOARD OF DIRECTORS

#### Board Size, Balance and Composition

The Company is led by an experienced Board, comprising three (3) Executive Directors, one (1) Non-independent Non-Executive Director and three (3) Independent Non-Executive Directors. The Board's composition represents a mix of knowledge, skill, and expertise to effectively discharge its stewardship and responsibilities in charting the strategic direction of the Group. The profiles of the members of the Board are set out on pages 12 to 15 of this Annual Report.

#### Duties and Responsibilities

The Board is responsible for the Company's overall business strategy, overseeing the conduct of the Company's investment and corporate proposals undertaken and ensures that the Company's business is being properly managed.

The Board reviews the adequacy and integrity of the Company's internal control system and management information systems and ensures that the systems comply with applicable laws and regulations. The Board also implements appropriate systems to identify and manage principal risks.

The Independent Non-Executive Directors exercise independent view, advice and judgement in Board deliberations. They do not participate in the day to day management of the Company but provide necessary check and balance. They do not engage in any business dealings or other relationship with the Company but act in the best interests of the shareholders and other stakeholders of the Company.

#### Board Meeting

The Board meets on a quarterly basis, with additional meetings being convened when necessary to address urgent issues. The Board met on four (4) occasions during the year ended 31 December 2011. The details of attendance of each Director at the Board Meetings held during the financial year are set out below.

### DETAILS OF BOARD MEETINGS

Date of Meeting	Time	Venue
14 February 2011	10:00 a.m.	Indera Subang Condominium, Ground Floor, Club House, Jalan USJ 6/2L, 47610 UEP Subang Jaya, Selangor Darul Ehsan
20 May 2011	10:00 a.m.	Indera Subang Condominium, Ground Floor, Club House, Jalan USJ 6/2L, 47610 UEP Subang Jaya, Selangor Darul Ehsan
15 August 2011	10:00 a.m.	Indera Subang Condominium, Ground Floor, Club House, Jalan USJ 6/2L, 47610 UEP Subang Jaya, Selangor Darul Ehsan
30 November 2011	02:30 p.m.	No. 30, Tao Hua Road, Futian Free Trade Zone, Shenzhen, The People's Republic of China

## CORPORATE GOVERNANCE STATEMENT

ATTENDANCE	Total Number of Meetings	Number of Meetings Attended
<b>EXECUTIVE DIRECTORS</b>		
TEE TUAN SEM	4	4
MAKOTO TAKAHASHI	4	4
TAI ME TECK	4	4
<b>NON-INDEPENDENT NON-EXECUTIVE DIRECTORS</b>		
WAN AZFAR BIN DATO' WAN ANNUAR	4	4
<b>INDEPENDENT NON-EXECUTIVE DIRECTORS</b>		
DATUK KAROWNAKARAN @ KARUNAKARAN	4	4
DATO' HAJI WAZIR BIN HAJI MUAZ	4	4
LEE KAY LOON	4	4

*All the Directors have complied with the minimum attendance at Board meetings as stipulated by the Listing Requirements of Bursa Malaysia Securities Berhad during the financial year.*

### Supply of Information

The Board has timely access to relevant information pertaining to the Group. Prior to each Board meeting, the Agenda for every Board meeting, together with comprehensive management reports, proposal papers and supporting documents, are furnished to all Directors for their perusal well in advance of the Board meeting date, so that the Directors have ample time to review matters to be deliberated. Directors can obtain further clarification where necessary in order to be better informed properly before the Board meeting. The proceedings and resolutions reached at each Board meeting are recorded in the minutes of the Board meeting.

The members of the Board also evaluate business propositions and corporate proposals that are required to be approved by the Board. The Board is regularly updated and advised on new statutory as well as regulatory requirements relating to the duties and responsibilities of Directors. Directors also have the advice and services of the Company Secretary and in furtherance of their duties, they can also seek independent professional advice if necessary.

### Directors Training

All Directors have completed the Mandatory Accreditation Programme as required by Bursa Malaysia Securities Berhad. Training attended by some of the directors includes "Governance Program - Assessing the Risk & Control Environment" organized by Bursa Malaysia, Scrutinising Financial Statement Fraud & Detection of Red Flags For Directors & Officers of PLC's & Government Regulatory Agencies" and "The New Corporate Governance Blueprint & Regulatory Updates" organized by Malaysian Institute of Corporate Governance. Some of the Directors have from time to time also attended various relevant training programmes and seminars organised by the relevant regulatory authorities and professional bodies to broaden their knowledge and to keep abreast with the relevant changes in law, regulations and the business environment.

### Corporate Social Responsibility (CSR)

The Group recognises its commitment to contribute positively to the community and society.

# CORPORATE GOVERNANCE STATEMENT

## Appointment to the Board

The appointment of additional Directors is made as and when deemed necessary by the existing Board based on the recommendations of the Nomination Committee. In the process of nominating and appointing new Directors, due consideration is given to experience in the industry, and other skills and expertise necessary for the Board to function effectively.

## Directors Re-election

In accordance with Article 80 of the Company's Articles of Association, one-third (1/3) of the Board, are subject to retirement by rotation at each Annual General Meeting. Directors retiring in each year are the directors who have been longest in office since their appointment or re-appointment. Article 87 provides that any Director appointed during the year shall hold office only until the next Annual General Meeting but may be re-appointed. Re-appointment provides an opportunity for the shareholders to renew their mandates. The motion for election of each director is voted separately. To assist shareholders in their decision, information such as personal profile, meetings attendance and the shareholdings interest in the Company of each director standing for election are furnished in the Statement Accompanying Notice of Annual General Meeting.

## Directors Remuneration

The Remuneration Committee annually reviews the performance of the Executive Directors before furnishing recommendations to the Board on specific adjustments in remuneration to reflect their respective contributions for the year as well as to ensure remunerations which are competitive and consistent with the Company's corporate objectives and strategy.

All Non-Executive Directors receive fees which are endorsed by the Board for approval by shareholders of the Company at the Annual General Meeting. The level of remuneration reflects the level of responsibilities undertaken by the Non-Executive Director. In addition, Non-Executive Directors are paid an allowance for each Board meeting they attend.

Details of Director's remuneration for the financial year ended 31 December, 2011 are as follows:-

Particulars	Executive Directors	Non-Executive Directors	Total (RM)
Salaries & other emoluments	3,114,250	-	3,114,250
Fees	60,390	156,000	216,390
Other emoluments	-	120,980	120,980
<b>Total (RM)</b>	<b>3,174,640</b>	<b>276,980</b>	<b>3,451,620</b>

# CORPORATE GOVERNANCE STATEMENT

Directors remuneration is analysed into bands of RM50,000 is as follows :-

Range of Remuneration	Number of Directors		
	Executive	Non-Executive Non-Independent	Non-Executive Independent
RM 50,001 to RM 100,000	-	1	2
RM 100,001 to RM 150,000	-	-	1
RM 650,001 to RM 700,000	2	-	-
RM1,750,001 to RM1,800,000	1	-	-

Note :-

The above mentioned Directors' remuneration is the total sum of the remuneration received by the Directors from the Company and its subsidiaries.

## Board Committees

The Board delegates specific functions and responsibilities to the Board Committees to facilitate it in the execution of its responsibilities, namely the Nomination Committee, Remuneration Committee and Audit Committee. All Committees are provided with written terms of reference which state clearly the extent and limits of their responsibility and authority.

## Nomination Committee

The Nomination Committee is responsible for proposing and recommending suitable candidates to the Board and to fill the seats on Board committees. The Nomination Committee will review the composition and effectiveness of the Board and the Board Committees in terms of the required mix of skills, expertise, attributes and core competencies of the Directors as well as the contribution of each individual Director on a yearly basis. The Committee met on one (1) occasion in the financial year 2011.

The composition of the Nomination Committee is as follows :-

1. Datuk Karownikaran @ Karunakaran - Chairman, Independent Non-Executive Director
2. Dato' Haji Wazir bin Haji Muaz - Independent Non-Executive Director
3. Wan Azfar bin Dato' Wan Annuar - Non-Independent Non-Executive Director

## Remuneration Committee

The Remuneration Committee is responsible for recommending to the Board the policy framework on terms of employment and on all elements of the remuneration of Executive Directors and Senior Management of the Company. The Remuneration Committee is authorised to review and recommend the annual bonus and salary increment of the Executive Directors of the Company. Remuneration of Non-Executive Directors is decided by the Board as a whole. Individual Directors shall abstain from deliberations and voting on their own remuneration at the Board and Remuneration Committee meetings. The Committee met on two (2) occasions in the financial year 2011.

The composition of the Remuneration Committee is as follows :-

1. Datuk Karownikaran @ Karunakaran - Chairman, Independent Non-Executive Director
2. Dato' Haji Wazir bin Haji Muaz - Independent Non-Executive Director
3. Lee Kay Loon - Independent Non-Executive Director

# CORPORATE GOVERNANCE STATEMENT

## Audit Committee

The Audit Committee assists in the monitoring of the adequacy and effectiveness of the internal control systems in place and also in the reviewing and reporting of financial information.

The Audit Committee Report is set out separately on pages 23 & 25 of the Annual Report.

## Relations with Shareholders and Investors

The Annual General Meeting is the principal forum for dialogue and interaction with shareholders. Shareholders can ask questions on resolutions being proposed during the meeting and also on the progress, performance and future developments of the company. The Chairman, Board members and the external auditors are available to respond and provide explanations to this question and answer session.

Information on the Group's activities is provided in the Annual Report and Financial Statements which are despatched to shareholders. Dialogues are also held by the Group with investment analysts and fund managers to keep them abreast with corporate and financial developments within the Group.

Shareholders can also obtain up-to-date information on the Group's various activities, news events and press releases by accessing its website at [www.ilb.com.my](http://www.ilb.com.my). Investors and the public who wish to contact the Group on any enquiry, comment or proposal can channel them through e-mail or contact the following persons :-

Name	Contact No.	E-mail address
Amarjit Singh A/L Banta Singh	03-5631 7377	amarjit@ilb.com.my
Eric Tay	03-5631 7377	erictay@ish.com.cn

## ACCOUNTABILITY AND AUDIT

### Financial Reporting

In presenting the annual financial statements and quarterly announcements to shareholders, the Board takes responsibility to present a balanced and understandable assessment of the Group's position and prospects. The Board is assisted by the Audit Committee to oversee the Group's financial reporting process and the quality of its financial reporting. The Statement explaining the Directors responsibility for preparing the financial statements is set out in page 28 of the Annual Report.

### Internal Control

The Board acknowledges its overall responsibility for maintaining a sound system of internal controls which encompasses financial, operational and compliance controls and risk management necessary for the Group to achieve its corporate objectives within an acceptable risk profile. These controls can only provide reasonable but not absolute assurance against material misstatement, loss or fraud. Ongoing reviews are continuously carried out to ensure the effectiveness, adequacy and integrity of the system of internal controls in safeguarding the company's assets.

The Statement on Internal Control set out on pages 26 & 27 of this Annual Report provides an overview of the State of Internal Control within the Group and of the Company.

The Board has collectively approved this statement.

### Relationship with the Auditors

The Board has established a formal and transparent relationship with the auditors. The Audit Committee recommends the appointment of the external auditors and their remuneration. The appointment of the external auditors is subject to the approval of shareholders in general meetings whilst their remuneration is determined by the Board. The role of the Audit Committee is further described in the Audit Committee Report.

## OTHER DISCLOSURES

### **Depository Receipt Programme**

The Company did not sponsor any depository receipt programme during the financial year.

### **Imposition Sanctions and/or Penalties**

There were no sanctions and/or penalties imposed on the Company & its subsidiaries, directors or management by the relevant regulatory bodies during the financial year.

### **Profit Estimate, Forecast or Projections**

The Company did not release any profit estimate, forecast or projection for the financial year. There is no variance of 10% or more between the results for the financial year and the unaudited results previously released by the Company.

### **Profit Guarantee**

During the financial year, there was no profit guarantee given by the Company.

### **Material Contracts**

There were no material contracts entered into by the Group which involved directors and/or major shareholders interest during the financial year.

### **Sanctions and Penalties**

There were no public sanctions and/or penalties imposed on the Company and its subsidiaries, Directors or management by the relevant regulatory bodies.

### **Non-Audit Fees**

The amount of non-audit fees paid to external auditors for the financial year ended 31 December 2011 was RM5,000.

### **Share Buy-Back**

During the financial year ended 31 December 2011, the Company purchased a total of 9,052,300 ordinary shares of RM1-00 each of the issued share capital from the open market at an average price of RM0.866 per share. The total consideration for the share buy-back was RM7,839,406 and was financed by internally generated funds. All the shares purchased during the financial year ended 31 December 2011 had been retained as treasury shares, and the total number of shares retained as treasury shares as at 31 December 2011 was 18,783,700 ordinary shares of RM1-00 each.

## OTHER DISCLOSURES

Information on the shares purchased by the Company during the financial year ended 31 December 2011 are as follows:

Monthly Breakdown	No. of Shares Purchased And Retained As Treasury Shares	Purchase Price Per Share (RM)		Average Cost Per Share	Total Consideration
		Lowest	Highest	(RM)	(RM)
January 2011	418,000	1.010	1.050	1.041	435,196.61
February 2011	617,000	0.985	1.030	1.013	625,320.28
March 2011	500,500	0.970	1.020	0.992	496,637.49
April 2011	715,600	0.950	0.990	0.980	701,091.33
May 2011	493,700	0.930	0.975	0.960	473,773.16
June 2011	915,900	0.875	0.950	0.923	845,333.06
July 2011	950,200	0.845	0.890	0.874	830,847.06
August 2011	3,391,900	0.750	0.850	0.790	2,679,383.39
September 2011	418,300	0.690	0.755	0.737	308,429.07
October 2011	221,900	0.695	0.710	0.705	156,353.83
November 2011	54,300	0.700	0.710	0.707	38,411.83
December 2011	355,000	0.680	0.700	0.700	248,628.12
<b>Total</b>	<b>9,052,300</b>			<b>0.866</b>	<b>7,839,405.23</b>

# AUDIT COMMITTEE REPORT

## TERMS OF REFERENCE

### 1.0 OBJECTIVES

The primary objective of the Audit Committee is to assist the Board of Directors in fulfilling its fiduciary responsibilities relating to the corporate accounting and reporting practices of the Company and its subsidiary companies. In addition, the Audit Committee shall :-

- a) Oversee and appraise the quality of the audit conducted by the Company's external Auditors.
- b) Maintain through regularly scheduled meetings, a direct line of communication between the Board of Directors and the external Auditors as well as internal Auditors.
- c) Determine the adequacy of the Group's administrative, operating and accounting controls.

### 2.0 COMPOSITION

The Audit Committee shall be appointed by the Board of Directors from amongst their members and shall be composed of at least three (3) and not more than five (5) members who shall:-

- a) be Independent Non-Executive Directors of the Company.
- b) not comprise persons having a relationship which, in the opinion of the Board of Directors, would interfere with the exercise of independent judgment in carrying out the functions of the Committee.

One member of the committee shall be appointed Chairman by the Board of Directors. In the absence of such an appointment, one of the members shall be elected as Chairman by the committee members.

### 3.0 AUTHORITY

The Audit Committee is authorised by the Board of Directors to investigate any activity within its terms of reference. It has free access to all information and documents it requires for the purpose of discharging its function and responsibilities.

The Audit Committee is also authorised to obtain outside legal or other independent professional advice, as it considers necessary.

### 4.0 DUTIES AND RESPONSIBILITIES

The duties and responsibilities of the Audit Committee shall be :-

- a) To review : -
  - the financial statements and annual reports prior to submission to the Board of Directors.
  - the Group's quarterly results prior to submission to the Board of Directors.
  - the compliance with and adequacy of the guidelines and procedures established to monitor recurrent related party transactions.
  - the planning, scope and area of internal audit and external audit and their respective audit findings.
  - the adequacy and effectiveness of the systems of internal control.
- b) to consider the appointment of the external Auditors, their remuneration and any question of resignation or dismissal.
- c) to report to the Board of Directors its activities, significant results and findings.
- d) to undertake such other responsibilities as may be agreed to by the Board of Directors.



# AUDIT COMMITTEE REPORT

## TERMS OF REFERENCE

### 5.0 MEETINGS

The Audit Committee shall meet at least four (4) times a year.

In addition, the chairperson shall convene a meeting of the Committee if requested to do so by any member, the management or the internal or external Auditors to consider any matter within the scope and responsibilities of the Committee.

### 6.0 ATTENDANCE

- a) Meetings shall be attended by the Chief Executive Officer, the Head of Internal Audit, and a representative of the external Auditors.
- b) Participants may be invited from time to time to attend the meetings.

### 7.0 QUORUM

A quorum shall consist of a majority of the committee members.

### 8.0 SECRETARY

The Company Secretary shall be the secretary to the Audit Committee and shall be responsible for keeping the minutes of meetings and circulating them to Committee members.

## COMPOSITION AND ATTENDANCE

The Audit Committee comprises the following members and details of attendance of each member at Committee meetings held during the financial year ended 31 December 2011 are as follows :-

Composition of the Committee	Composition of the Committee meetings
Lee Kay Loon (Chairman / Independent Non-Executive Director)	4 out of 4 meetings
Dato' Haji Wazir bin Haji Muaz (Member / Independent Non-Executive Director)	4 out of 4 meetings
Wan Azfar bin Dato' Wan Annuar (Member / Non-Independent Non-Executive Director)	4 out of 4 meetings

# AUDIT COMMITTEE REPORT

## ACTIVITIES

During the financial year, the Audit Committee met to review the quarterly and annual financial statements of the Company. The Audit Committee concurrently reviewed and endorsed the annual audit plan to ensure adequate scope and comprehensive coverage on the audit activities of Integrated Group of Companies. Also deliberated were the internal audit reports, audit recommendations made and management response to these recommendations and actions taken to improve the system of internal control and procedures. The scope of internal audit covers the audits of financial results and operations, including subsidiaries. A risk-based approach is adopted in respect of such audits.

The Audit Committee discharged its duties and responsibilities in accordance with its Terms of Reference.

## INTERNAL AUDIT

The Group Internal Audit Department whose principal responsibilities are to undertake regular and systematic reviews of the internal control system so as to provide reasonable assurance that such system continues to operate satisfactorily and effectively in the Group.

The Internal Audit Department within its terms of reference carried out the following activities for the period :-

- a) reviewed and appraised the soundness, adequacy and application of financial and operational controls for the Group.
- b) reviewed current system and key risk areas covering business processes to ensure proper internal controls are embedded in these processes.
- c) monitored the implementation of the audit recommendations to ensure all key risks and controls have been addressed.
- d) assisted the management by identifying and evaluating significant exposures to risk and contributing to the improvement of risk management and control systems.
- e) performed ad hoc audits on the subsidiaries operations including security and proper utilisation of the Company's assets.

# STATEMENT ON INTERNAL CONTROL

## BOARD RESPONSIBILITY

The Board of Directors recognises the importance of good corporate governance and is committed to maintaining a sound system of internal control and risk management. This includes the establishment of an appropriate control environment and risk management framework, and reviewing the adequacy and integrity of the said systems, to safeguard shareholders' investment and the Group's assets. The Board is pleased to provide the following statement, which outlines the nature and scope of internal control of the Group during the year.

Whilst acknowledging its responsibilities, the Board is aware that due to the limitations that are inherent in any systems of internal control and risk management, such systems are designed to manage, rather than eliminate, the risk that may impede the achievement of the Group's business objectives. Accordingly, it can only provide reasonable but not absolute assurance against material misstatements or losses, fraud or breaches of laws or regulations.

The Group's system of internal control has been in place for the entire year under review. The key features of the internal control systems which are operated throughout the period covered by the financial statements are described under the following headings:-

### **Risk Management**

The Group has an embedded process for the identification, evaluation and reporting of the major business risks within the Group. Policies and procedures have been laid down for the regular review and management of these risks. Regular reviews of the most significant areas of risk are undertaken to ensure that key control objectives remain in place. Reports on such regular reviews are presented to the Board and the Audit Committee on a regular basis.

### **Internal Control Structure**

The Group has in place a sound internal control structure with sufficient assurance mechanism to safeguard the Group's assets. There is a clearly defined operating structure with lines of responsibilities and delegated authority. The control structure and environment are supported by the following activities:-

- **Main Control Procedures**

The Group has defined procedures and control, including information systems controls, to ensure the reporting of complete and accurate financial information. These procedures and controls include obtaining authority for major transactions and ensuring compliance with laws and regulations that have significant financial implications. Procedures are also in place to ensure that assets are subject to proper physical controls and that the organisation remains structured to ensure appropriate segregation of duties.

- **Reporting**

There is a comprehensive budgeting system with an annual budget approved by the Board each year. Management accounts containing actual and budget results and revised forecasts for the year are prepared and reported to the Board. These Management reports analyse and explain variances against plan and report on key indicators.

- **Audit Committee**

The Audit Committee includes independent non-executive members of the Board and provides direction and oversight over the internal audit function to enhance its independence. The Audit Committee meets regularly to review internal audit findings, discuss risk management issues and ensures that weaknesses in controls highlighted are appropriately addressed by the management.

## STATEMENT ON INTERNAL CONTROL

- **Internal Audit**

An annual risk based internal audit plan is reviewed and approved by the Audit Committee at the beginning of the year. The objectives of the said audit plan are to ensure, through regular internal audit reviews, that the Group's policies and procedures are being complied with in order to provide assurance on the adequacy and effectiveness of the Group's system of internal controls. Follow-up reviews on previous audit reports are carried out to ensure that appropriate actions are taken to address internal control weaknesses highlighted. Other internal audit assignment also include customer's on-site warehouse operations audit.

- **Monitoring**

The monitoring of control procedures is achieved through management review by the Executive Director responsible for reporting to the Board. These are supplemented by comprehensive reviews undertaken by the internal audit function on the controls in operation in each individual business. Regular reports are produced for senior management to assess the impact of control issues and recommend appropriate actions.

- **Control Environment**

The Group has in place a proper control environment, which emphasizes on quality and performance of the group's employees through the development and implementation of human resource policies and programmes which are designed to enhance the effectiveness and efficiency of the individual and the organisation.

During the year, the Internal Audit Department has performed its duties in accordance with its annual audit plan covering management, operational and financial audit of various subsidiaries to ensure proper internal controls system are in place. In addition, the Internal Audit Department has conducted a compliance audit on the Groups' Recurrent Related Party Transactions (RRPT's).

The system of internal control is satisfactory and has not resulted in material losses, contingencies or uncertainties that would require disclosure in the Group's Annual Report.

## STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE AUDITED FINANCIAL STATEMENTS

The Directors are required by the Companies Act, 1965 ("the Act") to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Group and the Company at the end of the financial year and the results and cash flow of the Group and of the Company for the financial year. As required by the Act and the Main Market Listing Requirements of the Bursa Malaysia Securities Berhad, the financial statements have been prepared in accordance with the applicable approved accounting standards in Malaysia and the provisions of the Act.

In preparing those financial statements, the Company's Directors have:

- adopted suitable accounting policies and applied them consistently;
- made judgements and estimates that are prudent and reasonable;
- ensured applicable approved accounting standards have been followed.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act, 1965. The Directors are also responsible for the assets of the Company and hence, for taking reasonable steps for the prevention and detection of fraud and other irregularities.