

AUDIT COMMITTEE REPORT

COMPOSITION

As at the date of this Annual Report, the composition of the Audit Committee is as follows:

- **Members**

Y. Bhg. Tan Sri Asmat bin Kamaludin
(Chairman, Independent Non-Executive Director)

Mr Heah Sieu Lay
(Independent Non-Executive Director)

Mr Chong Jee Min
(Independent Non-Executive Director)

The composition of the Audit Committee complies with Chapter 15 of the Bursa Malaysia Securities Berhad (“Bursa Securities”) Main Market Listing Requirements (“Listing Requirements”).

- **Secretaries**

The Secretaries of Lion Industries Corporation Berhad, Ms Wong Phooi Lin and Puan Yasmin Weili Tan binti Abdullah, are also Secretaries of the Audit Committee.

TERMS OF REFERENCE

- **Membership**

The Audit Committee shall be appointed by the Board from amongst their number and shall consist of not less than three (3) members, all of whom shall be non-executive Directors with a majority of them being independent Directors. The composition of the Audit Committee shall fulfill the requirements as prescribed in the Listing Requirements. The Chairman of the Audit Committee shall be an independent Director appointed by the Board.

- **Meetings and Minutes**

The Audit Committee shall meet at least four (4) times annually and the Chief Internal Auditor and the Chief Financial Officer shall normally be invited to attend the meetings. A majority of independent Directors present shall form a quorum. The Audit Committee shall meet with the external auditors without the executive Board members being present at least twice a year.

Minutes of each meeting shall be kept and distributed to each member of the Audit Committee and the Board. The Chairman of the Audit Committee shall report on each meeting to the Board.

- **Authority**

In conducting its duties and responsibilities, the Audit Committee shall have:

- (a) the authority to investigate any matter within its terms of reference.
- (b) the resources which are required to perform its duties.
- (c) full and unrestricted access to any information pertaining to the Company and the Group.
- (d) direct communication channels with the external and internal auditors.
- (e) the right to obtain independent professional or other advice as necessary.
- (f) the right to invite other Directors and/or management of the Company to attend any particular Audit Committee meeting to discuss specific issues.
- (g) the right to be able to meet with the external auditors, internal auditors or both, excluding the attendance of other Directors or employees of the Company, whenever deemed necessary.

- **Duties**

The duties of the Audit Committee are:

- (a) To consider the appointment, resignation and dismissal of external auditors and the audit fee.
- (b) To discuss with the external auditors, prior to the commencement of audit, the nature and scope of audit and to ensure co-ordination of audit where more than one audit firm is involved.
- (c) To review and assess the annual and quarterly financial statements prior to the approval of the Board, focusing on:
 - going concern assumption
 - compliance with accounting standards and regulatory requirements
 - changes in accounting policies and practices
 - significant issues arising from audit
- (d) To discuss problems and reservations arising from the interim and final audits, and any matter the auditors may wish to discuss excluding the attendance of other Directors and employees of the Company, whenever deemed necessary.
- (e) To review the external auditors' management letter and management's response thereto.
- (f) To establish the following with the internal audit function:
 - review the adequacy of the scope, functions, competency and resources of the internal audit function and that it has the necessary authority to carry out its work
 - review internal audit programme
 - ensure co-ordination of external audit with internal audit
 - consider the major findings of internal audit reviews/investigations and management's response, and ensure that appropriate actions are taken on the recommendations of the internal audit function
- (g) To review any related party transaction and conflict of interests situation that may arise within the Company and the Group.
- (h) To consider the appointment of independent advisers for corporate proposals involving related parties.
- (i) To assess the quality and effectiveness of the system of internal control and efficiency of operations, and to review the risk policy and implementation of the risk management framework.
- (j) To promptly report to Bursa Securities on any matter where the Audit Committee is of the view that the matter reported by it to the Board has not been satisfactorily resolved resulting in a breach of the Listing Requirements.
- (k) To review any appraisal or assessment of the performance of the members of the internal audit function, approve any appointment or termination of senior staff members of the internal audit function and be informed of any resignation of senior internal audit staff members and reasons thereof.
- (l) To perform any other such function as may be directed by the Board.

ACTIVITIES DURING THE FINANCIAL YEAR

During the financial year under review, eight (8) Audit Committee Meetings were held at which full attendance were recorded for all the members.

The Audit Committee carried out its duties in accordance with its Terms of Reference during the year.

The main activities undertaken by the Audit Committee during the year were as follows:

- **Financial Results**
 - (a) Reviewed the interim unaudited financial statements of the Group prior to recommending them for approval by the Board.
 - (b) Reviewed the annual financial statements of the Group prior to submission to the Board for its consideration and approval focusing particularly on changes in or implementation of major accounting policies, significant and unusual events and compliance with applicable accounting standards approved by the Malaysian Accounting Standards Board (“MASB”) and other legal requirements.
- **Internal Audit**
 - (a) Reviewed the annual audit plan to ensure adequate scope and coverage on the activities of the Group, taking into consideration the assessment of key risk areas.
 - (b) Reviewed the audit programmes, resource requirements and skill levels of the internal auditors for the year and assessed the performance of the internal audit function.
 - (c) Reviewed the internal audit reports, audit recommendations made and management’s response to these recommendations and actions taken to improve the system of internal control and procedures.
 - (d) Monitored the implementation of the audit recommendations to ensure that all key risks and controls have been addressed.
 - (e) Reviewed the Internal Control – Self-Assessment ratings submitted by the respective operations management.
- **External Audit**
 - (a) Reviewed with external auditors the audit planning memorandum covering the audit objectives and approach, audit plan, key audit areas and relevant technical pronouncements and accounting standards issued by MASB.
 - (b) Reviewed with external auditors the results of the audit and the audit report in particular, accounting issues and significant audit adjustments arising from the external audit.
 - (c) Reviewed with external auditors the memorandum of comments and recommendations arising from their study and evaluation of the system of internal and accounting controls together with management’s response to the findings of the external auditors.
 - (d) Evaluated the performance of the external auditors and made recommendations to the Board on their appointment and remuneration.
 - (e) Convened meetings with the external auditors without executive Board members and management being present to discuss issues arising from their review.

- **Risk Management**

Reviewed the Corporate Risk Scorecard of key operations and the mitigating controls to address identified risks.

- **Related Party Transactions**

(a) Reviewed the related party transactions entered into by the Group set out below:

1. Proposed waiver of 50% of the interest charged by the Company to Likom Computer System Sdn Bhd ("Likom") for the lease by Likom of a factory building in Melaka Technology Park for its operations.
2. (i) Proposed joint-venture between the Company, Lion Diversified Holdings Berhad and Lion Forest Industries Berhad in Lion Blast Furnace Sdn Bhd ("LBF") in the shareholding of 29%, 51% and 20% respectively ("Blast Furnace Project");
(ii) Proposed disposal by Amsteel Mills Sdn Bhd, a subsidiary of the Company, to LBF of a parcel of freehold land located in Mukim Tanjung Duabelas, Daerah Kuala Langat, Negeri Selangor Darul Ehsan measuring approximately 41.36 acres, for a cash consideration of approximately RM16.22 million for the Blast Furnace Project; and
(iii) Proposed provision of corporate guarantee by the Company in favour of LBF and pledge of securities to be given by the Company proportionate to its shareholding in LBF to secure a loan facility to be obtained by LBF and its subsidiary in relation to the Blast Furnace Project.
3. Proposed variation to the payment date in relation to the put option exercised by the Company pursuant to the put and call option agreement dated 13 March 2009 entered into with Tan Sri Cheng Heng Jem in respect of the Company's 50% holding of the redeemable convertible secured loan stocks issued by Lion Corporation Berhad ("LCB").
4. Proposed acquisition by the Company of 50% equity interest in Angkasa Amsteel Pte Ltd from Hong Leong Asia Ltd for an aggregate cash consideration of SGD15.3 million (approximately RM36.56 million).
5. (i) Proposed further extension of the payment of the coupon on the redeemable convertible secured loan stocks issued by LCB due on 30 April 2011 to 31 July 2011 ("Proposed LCB Deferment");
(ii) Proposed waiver of the declaration of an event of default in Megasteel Sdn Bhd ("Megasteel"), a subsidiary of LCB ("Proposed Waiver of Megasteel Default"); and
(iii) Proposed authorisation of RHB Investment Bank Berhad acting as the security trustee for the lenders of ACB Resources Berhad to attend the meeting and vote in respect of the Proposed LCB Deferment and the Proposed Waiver of Megasteel Default.

(b) Reviewed recurrent related party transactions of a revenue or trading nature on a quarterly basis for compliance under the Shareholders' Mandate.

INTERNAL AUDIT FUNCTION

The internal audit function is undertaken by the Group Management Audit Department (“GMA Department”). Its principal activity is to perform regular and systematic reviews of the system of internal controls so as to provide reasonable assurance that such systems continue to operate satisfactorily and effectively.

The purpose, authority and responsibility of the internal audit function as well as the nature of the assurance activities provided by the function are articulated in the Internal Audit Charter.

In discharging its function, the GMA Department adopts the *International Standards for the Professional Practice of Internal Auditing* as well as established auditing guidelines to enhance its competency and proficiency.

A risk-based audit plan is tabled to the Audit Committee for approval on an annual basis. The audit plan covers key operational and financial activities that are significant to the overall performance of the Group and is developed to ensure adequate coverage on a regular basis. Key risk areas are continuously identified and prioritised to ascertain the scope of the audit activities through the adoption by the operation management of the Internal Control – Self-Assessment Questionnaire and the Strategic Corporate Risk Management Scorecard.

During the financial year, the internal auditors had conducted independent reviews and evaluated risk exposures relating to the Group’s governance, operations and information system as follows:

- Reliability and integrity of financial and operational information
- Effectiveness and efficiency of operations
- Safeguarding of assets
- Compliance with set policies and procedures
- Identification of opportunities to improve the operations and processes
- Investigations and special audit reviews

The internal auditors also established follow-up review to monitor and to ensure that internal audit recommendations are effectively implemented.

The internal audit activities have been carried out according to the internal audit plan approved by the Audit Committee for the financial year.

The total cost incurred in managing the internal audit function of the Group for the financial year was RM359,000.