



Report of the AUDIT AND COMPLIANCE COMMITTEE

The Board is pleased to issue the following report of the Audit and Compliance Committee and its activities during the financial year ended 31 December 2012.

COMPOSITION OF AUDIT AND COMPLIANCE COMMITTEE AND MEETINGS

The Audit and Compliance Committee comprises of three

(3) members, all of whom are Non-Executive Directors. The current composition of the Committee stands at three (3) members.

A total of eight (8) meetings of the Audit and Compliance Committee were held during the year. The status of directorship and attendance record of each of the members during the financial year are as follows:

Members of Audit and Compliance Committee

No. of Meetings Attended

Khalid bin Sufat Chairman, Senior Independent Non-Executive Director	8/8
Datuk Karownikaran @ Karunakaran A/L Ramasamy Member, Independent Non-Executive Director	8/8
Datin Paduka Kartini binti Hj. Abdul Manaf Member, Non-Independent Non-Executive Director	8/8

TERMS OF REFERENCE

In fulfilling its duties and objectives, the Audit and Compliance Committee is guided by the Terms of Reference as follows:

Membership

- i. The Audit and Compliance Committee shall be appointed by the Board of Directors and shall consist of a minimum of three (3) Non-Executive Directors, a majority of whom are Independent;
- ii. The Chairman of the Audit and Compliance Committee shall be approved by the Board and shall be an Independent Non-Executive Director;
- iii. At least one member of the Committee:-
 - must be a member of the Malaysian Institute of Accountants (MIA); or
 - if not a member of MIA:
 - he must have at least three 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.

- fulfils such other requirements as prescribed or approved by the Exchange.

Meetings

- i. Meetings shall be held no less than four (4) times a year;
- ii. The quorum shall be two (2) members, who must be Independent Directors;
- iii. The Group Managing Director, the Group Finance Director and the Group Internal Auditor shall normally be invited to attend the meeting;
- iv. Any other Board members and any other representatives as deemed necessary shall be invited to attend the meeting;
- v. The Committee shall meet with the external auditors, the internal auditors or both, in the absence of other directors or employees of the listed issuer at least twice a year or whenever is deemed necessary;

- vi. The Secretary to the Committee shall be the Company Secretary.

Authority

The Audit and Compliance Committee is authorised by the Board:-

- i. to seek any information relevant to its activities from employees of the Group;
- ii. to engage the necessary resources required to carry out its duties and to obtain independent professional advice it considers necessary;
- iii. to have full and unlimited access to any information and documents pertaining to the Group.

Responsibilities

- i. To consider and recommend to the Board the nomination, appointment and termination of External Auditors, as well as the audit fee;
- ii. To discuss with the external auditor before the audit commences, the nature and scope of the audit, and ensure coordination where more than one audit firm is involved;
- iii. To review the quarterly and year-end financial statements of the Board, focusing particularly on:
 - any change in accounting policies and practices;
 - significant adjustments arising from the audit;
 - the going concern assumption; and
 - compliance with accounting standards and other legal requirements.
- iv. To discuss problems and reservations arising from the interim and final audits, and any matter the external auditor may wish to discuss (in the absence of management where necessary);

- v. To review the External Auditor's management letter and management's response;

- vi. To carry out the following, in relation to the internal audit function of the Group:

- Review and approve the annual audit plan;
- Review the adequacy of the scope, functions, competency and resources of internal audit functions and that it has the necessary authority to carry out its work;
- Review and endorse the audit charter which outlines the purpose, authority and responsibility of the Group Internal Audit;
- Review the internal audit plans and results of these activities and where necessary, ensure that appropriate actions are taken on the recommendations of these functions;
- Review the annual budget for Group Internal Audit;
- Review any appraisal on performance as well as competency of the Group Internal Audit functions;
- Approve any appointment or termination of senior staff members of the Group Internal Audit functions; and
- Take cognisance of resignations of staff/members of the Group Internal Audit functions and provide the resigning staff/members an opportunity to submit his reasons for resigning.

- vii. To review any related-party transactions that may arise within the Group;

- viii. To review the major findings of internal investigations and management's response; and

- ix. To consider other topics as defined by the Board.



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ACTIVITIES DURING THE FINANCIAL YEAR

- i. Reviewed and approved the internal and external audit plans of the Group;
- ii. Reviewed the status report of internal audit activities of the Group for the year to ensure that all planned activities were properly carried out;
- iii. Reviewed the internal audit and special investigation reports prepared by Group Internal Audit and monitored the status of corrective actions taken by the Management to ensure all audit issues are addressed;
- iv. Reviewed the External Auditors' management letters, reports and fees;
- v. Evaluated the performance of the External Auditors and made recommendations to the Board on their reappointment and audit fees;
- vi. Reviewed the Group's financial performance and quarterly announcement to Bursa Malaysia and annual reports of the Group prior to the submission to the Board for consideration and approval;
- vii. Reviewed the related party transactions entered into by the Group and the disclosure of such transactions in the Annual Report and circular on recurrent related party transactions;
- viii. Reviewed and recommended to the Board dividends to be declared to the shareholders of the Company;
- ix. Reviewed the revised Internal Audit Charter, Management Control Policy and Whistle Blowing Policy of the Group;
- x. Reviewed and recommended to the Board the revision to the Limit of Authority for the Group in relation to capital expenditure;
- xi. Reviewed and approved the appointment of a new Tax Agent for the Group's Malaysian Entities;
- xii. Reviewed and provided guidance to Management in respect of the Letter of Demand against CCM Chemicals Sdn. Bhd. from Prostar Edge (Johor) Sdn. Bhd.

STATEMENT ON INTERNAL AUDIT FUNCTION

The Audit and Compliance Committee is supported by an in-house Group Internal Audit Department, which reports functionally to the Committee.

The Group Internal Audit Department's principal responsibility is to undertake regular and systematic audit assessments on the operations of the CCM Group of Companies so as to provide reasonable assurance that such internal control systems and governance processes are adequate and continue to operate effectively and efficiently in achieving the objectives of the Group. The Group Internal Audit Department also provides an independent, objective assurance and consulting services designed to add value and improve the Company's operations.

Adopting a risk-based approach after evaluation and assessment of risks at Company and Group level, the Group Internal Audit Department formulated an Annual Audit Plan, which was approved by the Audit and Compliance Committee. The scope of the Group Internal Audit function covers the audit of all business units and operations of the Company and its subsidiaries.

The Internal Audit reports, which included issues and action plans, were presented to and discussed with the Management. Group Internal Audit subsequently monitored the implementation of the agreed action plans to ensure full compliance. The reports together with the follow-up action plans and implementation status were presented to the Audit and Compliance Committee for their deliberation and subsequent approval.

The total expenditure incurred by the Group Internal Audit Department for the financial year, which amongst others includes departmental expenditures such as office running expenses, training expenses, travelling expenses, staff remuneration, etc. is estimated at RM1.53 million.