

# Audit Committee Report

## Composition

The Audit Committee comprises the following six (6) members, four (4) of whom, including the Chairman, are Independent Non-Executive Directors:

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### Martin Giles Manen (Chairman)

Independent Non-Executive Director

(Re-designated as Chairman of the Audit Committee on 4 November 2010)

A Chartered Accountant and a member of the Malaysian Institute of Accountants and the Malaysian Institute of Certified Public Accountants

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### Tan Sri Saw Huat Lye

Senior Independent Non-Executive Director

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### Dr Leslie Buckley

Non-Independent Non-Executive Director

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### Sreesanthan Eliathamby

Independent Non-Executive Director

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### Dato' Syed Salleh bin Syed Othman

Independent Non-Executive Director

(Appointed on 1 February 2011)

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### Edward McShane

Non-Independent Non-Executive Director

(Appointed on 22 September 2011)

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## Meetings

During the financial year ended 30 June 2011, five (5) Audit Committee meetings were held and details of attendance of the Audit Committee members are as follows:

Name	Attendance
Martin Giles Manen (Chairman)	5/5
Tan Sri Saw Huat Lye	5/5
Dr Leslie Buckley	5/5
Sreesanthan Eliathamby	4/5
Dato' Syed Salleh bin Syed Othman (Appointed on 1 February 2011)	1/1
Siobhan Mary Hamilton (Resigned on 22 September 2011)	5/5
Dato' Jaffar Indot (Retired on 4 November 2010)	3/3

Note : Mr Edward McShane was appointed to the Audit Committee on 22 September 2011

Some members of Senior Management ie, the Managing Director, Finance Director and the Head of Internal Audit were also invited to attend these meetings to brief the members on specific issues.

The Group's external auditors were present at two (2) Audit Committee meetings during the financial year where matters relating to the audit of the statutory accounts were discussed. Prior to some Audit Committee Meetings, private sessions between the Audit Committee and the external auditors were held without the presence of the Executive Directors,

Management and the Head of Internal Audit during the financial year to discuss the audit findings and any other observations they may have during the audit process. The Audit Committee Chairman also had two (2) separate meetings with the external auditors without the Management's presence.

The Chairman of the Audit Committee reports to the Board on matters deliberated at the Audit Committee meetings. Minutes of meetings of the Audit Committee were also circulated to all members of the Board.

## TERMS OF REFERENCE

In discharging its duties and responsibilities, the Audit Committee is guided by the following Terms of Reference:

### A. Membership

The Audit Committee comprises at least three (3) Directors, the majority of whom are independent. The members of the Audit Committee shall elect a Chairman who shall be an Independent Director, from amongst themselves.

To comply with the Malaysian Code on Corporate Governance (Revised 2007), the Audit Committee shall comprise only of Non-Executive Directors from November 2008 onwards.

The Head of Internal Audit or the Company Secretary shall be the Secretary of the Audit Committee. At least one member of the Audit Committee shall be a member of the Malaysian Institute of Accountants or alternatively a person who has at least three (3) years working experience and has passed the examinations specified in Part 1 of the First Schedule of the Accountants Act, 1967 or is a member of one of the associations specified in Part II of the said schedule or a person who fulfills the requirements as may be prescribed by Bursa Securities from time to time.

No alternate Director shall be appointed as a member of the Audit Committee. The Board shall review the terms of office and performance of the members of the Audit Committee at least once a year to determine whether the members have carried out their duties in accordance with their Terms of Reference.

In the event of any vacancy in the Audit Committee resulting in the non-compliance of the Listing Requirements of Bursa Securities, the Board shall fill the vacancy within three months from the date of the vacancy.

### B. Meetings and Minutes

The Audit Committee shall meet at least four (4) times annually. A majority of the members in attendance must be Independent Directors in order to form a quorum for the meeting.

The Finance Director and the Head of Internal Audit shall normally attend meetings of the Audit Committee. External auditors shall be entitled to attend meetings of the Audit Committee at least once a year to make known their views on any matter under consideration by the Audit Committee or, which in their opinion, should be brought to the Audit Committee's attention. Non-member Directors and employees of the Company shall not attend unless specifically invited by the Audit Committee.

The Secretary shall record, prepare and circulate the minutes of the meetings of the Audit Committee and ensure that the minutes are properly kept and produced for inspection if required.

The Audit Committee shall report to the Board and its minutes will be tabled to and noted by the Board.

### C. Authority

The Audit Committee is authorised by the Board to review any activity within the Audit Committee's Terms of Reference. It is authorised to seek any information it requires from any Director or member of Management and has full and unrestricted access to any information pertaining to the Company and the Management, and all employees of the Group are required to comply with the requests made by the Audit Committee.

The Audit Committee is authorised by the Board to obtain external professional advice and secure the attendance of outsiders with relevant experience and expertise if it considers this necessary. In the event that any member of the Audit Committee shall need to seek external professional advice in furtherance of his duties, he shall first consult with and obtain the prior approval of the Chairman of the Audit Committee.

## Audit Committee Report

The Audit Committee is also authorised by the Board of the Company to review any activity within its Terms of Reference, and where it deems necessary, investigate any matter referred to it or that it has come across in respect of a transaction that raises questions of Management integrity, possible conflicts of interest, or abuse by a significant or controlling shareholder.

The Audit Committee shall have direct communication channels and be able to convene meetings with the external auditors excluding the attendance of the non-independent members of the Audit Committee, whenever deemed necessary.

The Head of Internal Audit shall report directly to the Audit Committee and shall have direct access to the Chairman of the Audit Committee on all matters of control and audit. All proposals by Management regarding the appointment, transfer and removal of the Head of Internal Audit of the Company shall require prior approval of the Audit Committee. Any inappropriate restrictions on audit scope are to be reported to the Audit Committee.

### D. Duties

1. To review the quarterly and annual financial statements of the Company, focusing particularly on:
  - any significant changes to accounting policies and practices
  - significant adjustments arising from the audits
  - compliance with accounting standards and other legal requirements
  - the going concern assumption
2. To review any related party transaction and conflict of interest situation that may arise within the Group including any transaction, procedure or course of conduct that raises questions of Management integrity.
3. To consider annually the Risk Management Framework adopted within the Group and to be satisfied that the methodology employed allows the identification, analysis, assessment, monitoring and communication of risks in a regular and timely manner that will allow the Group to minimise losses and maximise opportunities.
4. To ensure that the system of internal controls is soundly conceived and in place, effectively administered and regularly monitored.
5. To cause reviews to be made of the extent of compliance with established internal policies, standards, plans and procedures including for example, the Code of Conduct.
6. To obtain assurance that proper plans for control have been developed prior to the commencement of major areas of change within the organisation.
7. To be satisfied that the strategies, plans, manning and organisation for internal auditing are communicated down through the Group, specifically:
  - to review the internal audit plans and to be satisfied with their consistency with the Risk Management Framework used, the adequacy of coverage and the audit methodologies employed
  - to be satisfied that the internal audit function within the Company has the proper resources and standing to enable them to complete their mandates and approved audit plans
  - to review status reports from internal audit and ensure that appropriate action is taken on the recommendations of the internal audit function. To recommend any broader reviews deemed necessary as a consequence of the issues or concerns identified

- to review any appraisal or assessment of the performance of the members of the Internal Audit function, to approve any appointment or termination of senior staff members of the Internal Audit function and to inform itself of any resignations of Internal Audit staff members and reasons thereof
  - to ensure Internal Audit has full, free and unrestricted access to all activities, records, property and personnel necessary to perform its duties
  - to request and review any special audit which it deems necessary
8. To review with the external auditors the nature and scope of their audit plan and report.
  9. To review any matters concerning the appointment and re-appointment, audit fee and any questions of resignation or dismissal of the external auditors.
  10. To review and evaluate factors related to the independence of the external auditors and assist them in preserving their independence.
  11. To be advised of significant use of the external auditors in performing non-audit services within the Group, considering both the types of services rendered and the fees, such that their position as auditors are not deemed to be compromised.
  12. To review the external auditors' findings arising from audits, particularly any comments and responses in Management Letters as well as the assistance given by the employees of the Group in order to be satisfied that appropriate action is being taken.
  13. To recommend to the Board steps to improve the system of internal controls derived from the findings of the internal and external auditors and from the consultations of the Audit Committee itself.
  14. To review with the external auditors the Statement of Internal Control of the Group for inclusion in the annual report.
  15. To prepare the annual Audit Committee report to the Board which includes the composition of the Audit Committee, its Terms of Reference, number of meetings held, a summary of its activities and the existence of an Internal Audit function and summary of the activities of that function for inclusion in the annual report.
  16. To review the Board's statements on compliance with the Malaysian Code on Corporate Governance for inclusion in the annual report.
  17. To review dividend payments.
  18. To act on any other matters as may be directed by the Board.

### Summary of Activities

The following activities were carried out by the Audit Committee during the financial year ended 30 June 2011:

#### Financial Reporting

- Reviewed the quarterly and year-to-date financial results of the Group and the relevant announcements to Bursa Securities, focusing particularly on significant changes to accounting policies and practices and compliance with financial reporting and accounting standards before recommending them for approval by the Board
- Reviewed the annual audited financial statements of the Group prior to submission to the Board for approval. The review was to ensure that the financial reporting and disclosures are in compliance with the Listing Requirements of Bursa Securities, provisions of the Companies Act, 1965, applicable International Financial Reporting Standards, approved accounting standards issued by the Malaysian Accounting Standards Board and any other relevant legal and regulatory requirements

In the review of the annual audited financial statements, the Audit Committee discussed with Management and the external auditors the accounting principles and reporting standards that were applied and the impact of the items to the financial statements.

## Audit Committee Report

### Internal Audit

- Reviewed the Internal Audit Plan and Programmes including the audit methodology in assessing and rating risks of auditable areas to ensure adequate scope and comprehensive coverage on the audit activities of the Group
- Reviewed the effectiveness of the audit process, resource requirements for the year and assessed the performance of the Internal Audit Department. The competency and performance of the Head of Internal Audit were also reviewed
- Reviewed the Internal Audit reports which encompassed the audit issues, audit recommendations and Management's responses to these recommendations. Improvement actions in the area of internal controls, systems and efficiency enhancements suggested by the internal auditors were discussed together with Management
- Reviewed the implementation of these recommendations through follow-up audit reports to ensure all key risks and control issues were addressed
- Suggested additional improvement opportunities in the areas of internal control, systems and efficiency improvement
- Reviewed the results of ad hoc investigations / special reviews on internal misconduct in relation to the Code of Conduct and suspicion of fraud or operational failures within the Group
- Reviewed the reports from the Risk and Control Workgroup (RCW) following their quarterly meetings

### External Audit

- Reviewed with the external auditors their audit scope, audit strategy and audit plan for the year and their proposed fees for the statutory audit and review of the Statement of Internal Control
- Reviewed the external audit reports and areas of concern highlighted in the Management Letter including Management's responses to the findings of the external auditors
- Discussed with external auditors the significant accounting and auditing issues, impact of new or proposed changes in accounting standards and regulatory requirements applicable to the Group
- Assessed the independence and objectivity of the external auditors during the year in carrying out statutory audit for the Group and prior to the appointment of the external auditors for ad hoc non-audit services. The Audit Committee also received report from the external auditors confirming that there were no circumstances and relationship that create threats to their independence and that the ethical requirements have been complied with
- Reviewed the performance of the external auditors and recommended their re-appointment to the Board for financial year ended 30 June 2011

### Other Activities

- Reviewed the effectiveness of the Group's Risk Management Programme including the process for identifying, evaluating and managing business risks, and reviewed the annual and quarterly risk profiles of the Group
- Reviewed the adequacy, effectiveness and reliability of controls over financial reporting based on the Control Assurance and Risk Management Programme assessment
- Reviewed the related party transactions entered / to be entered into by the Company and its subsidiaries and the Circular to Shareholders in respect of renewal of shareholders' mandate for recurrent related party transactions
- Reviewed all dividend payments proposed by Management
- Reviewed the compliance with the Malaysian Code on Corporate Governance

### Training

During the financial year ended 30 June 2011, the Audit Committee members (save for Mr Sreesanthan Eliathamby) attended the in-house training programme organised for the Company's Directors. Mr Sreesanthan Eliathamby attended the Directors' Training "Avoiding Minefields Amidst A Changing Anti-Corruption Landscape" organised by Sime Darby Berhad during the said financial year. Some of the Audit Committee members have also individually attended various training programmes and

conferences organised by the relevant regulatory authorities and professional bodies during the financial year ended 30 June 2011, the details of the topics are set out in the Statement on Corporate Governance on Directors' Training.

### Internal Audit Function

The Internal Audit function is carried out in-house by the Internal Audit Department led by the Head of Internal Audit who reports directly to the Audit Committee. The Audit Committee determines the adequacy of the scope, functions, competency and resources of the Internal Audit function which comprises 5 staff as of 22 September 2011.

The principal role of the Internal Audit Department is to undertake independent and systematic reviews on the Group's internal controls system so as to provide reasonable assurance on the adequacy, integrity and effectiveness of the Group's overall system of internal controls, risk management and governance.

The Internal Audit Department has adopted a risk-based approach towards the planning and conduct of audits consistent with the Group's established framework in designing, implementing and monitoring of control system. The Internal Audit Department also works collaboratively with the RCW to review the risk management processes of the Group as a whole. The Group's monitoring process and Control Assurance and Risk Management approach are in line with the Risk Management Framework and risk awareness culture within the organisation.

The Internal Audit Department carried out its activities based on the Annual Internal Audit Plan approved by the Audit Committee. The main activities carried out by the Internal Audit Department during the financial year ended 30 June 2011 include:

- (i) Conducted operational reviews on the following areas:
  - Regional sales and distributors assurance and compliance with the Group standard policies and procedures and the regulatory requirements
  - National key accounts operation, procurement, logistics operations, information system and warehousing management systems
  - Brand marketing, trade marketing and credit control activities
- (ii) Evaluating key strategic and crisis risks and reviewing the risk management processes within the Group to assess its effectiveness.
- (iii) Conducted investigations / special reviews at the request of the Management on suspicion of fraud or operational failures reported to them within the Group.

(iv) Conducted follow-up reviews on audit recommendations raised in previous audit reports to ensure that corrective and preventive actions are implemented accordingly by the auditees and provided updates on the status of such actions in the Internal Audit Reports.

(v) Reviewed proposed / new changes to policies and procedures to ensure compliance with internal controls and the relevant regulatory requirements.

(vi) Reviewed related party transactions entered into by the Group on a quarterly basis to ensure the transactions were at arm's length and within the limit provided in the Shareholders Mandate.

(vii) Conducted crisis simulation to enhance the Group's preparedness in crisis situation.

The findings of the Internal Audit Department were highlighted to relevant Management for attention and necessary corrective actions. The Management is responsible for ensuring that corrective actions are taken within the required timeframe. The finding reports were also discussed at the RCW meetings and presented to the Audit Committees for review at their quarterly meetings.

The total cost incurred by the Internal Audit Department in relation to the conduct of the Internal Audit functions of the Group for the financial year ended 30 June 2011 was RM795,061.