

Statement on Corporate Governance

The Malaysian Code on Corporate Governance 2012 (the “Code”) sets out the principles and best practices on structures and processes used to direct and manage the business and affairs of the Company towards enhancing corporate accountability with the objective of realising long-term shareholder value, whilst taking into account the interests of other stakeholders.

The Board of Directors (the “Board”) is committed to ensuring that the highest standards of corporate governance are practised throughout the Group as a fundamental part of discharging its responsibilities to protect and enhance shareholders’ value and the performance of the Group.

The Board is pleased to report to the shareholders on the manner the Company has applied the principles of good corporate governance and the extent of compliance with the Best Practices of Good Governance as set out in the Code throughout the financial year ended 31 December 2014.

PRINCIPLE 1

ESTABLISH CLEAR ROLES AND RESPONSIBILITIES

Recommendation 1.1

Clear Functions between the Board and Management

The Board retains full and effective control of the Group. This includes responsibilities for determining the Group’s overall strategic directions as well as development and control of the Group. To ensure effective discharge of its function and responsibilities, the Board has delegated specific responsibilities to Board Committees namely; the Nomination and Remuneration Committee, Audit and Compliance Committee, Finance and Investment Committee and Risk Management Committee.

The Board has also established sub-holding boards for each of the Group’s businesses to ensure that the strategies and policies set at the Group level are implemented at the respective business divisions. In addition to these Board Committees, the Board has established a sub-committee named Integrity Committee, which is under the purview of the Audit and Compliance Committee to enhance its corporate governance practices and strengthen the ethical standards within the Group.

The Board has established clear functions which are reserved for the Board and those delegated to Board Committees and Management. Key matters, such as approval of annual and quarterly results, acquisitions and disposals, as well as material agreements, major capital expenditure, short-term and long-term plans and strategies and succession planning for top management are reserved for the Board.

Meanwhile, all Board Committees have their Terms of Reference approved by the Board. These Committees have the authority to examine particular issues and submit reports of their deliberations and major findings to the Board. At each Board meeting, the Chairman of the relevant Committees presents reports and minutes of Board Committee meetings to keep the Board informed and updated on the key issues deliberated by the Board Committees at their respective meetings. The Terms of Reference, composition and activities of the respective committees are stated in their respective reports.

The Board on 31 December 2014 had reviewed the composition of all its Board Committees, as part of its continuous effort to ensure effective Boardroom dynamic.

The Board maintains a close and transparent relationship with the Management. Clear Limits of Authority for Management to manage the business of the Group has been established and reviewed as and when necessary to ensure that the limits of authority are up to date. Many of the responsibilities of the Board are delegated to Management through the Group Managing Director. The Group Managing Director is accountable to the Board for the achievement of the Group’s corporate objectives which include performance targets and long-term goals of the business.

The Board conducts a quarterly review of the performance targets and long-term goals of the business to ensure that the needs of the Group are consistently met. The Board is furnished with information relating to the running of the Group’s operations through various financial and operational monthly and quarterly reports prepared by Management. This allows them to understand the operations better and make decisions in steering the Group towards a profitable business. At each normal Board meeting, the Board receives from or through the Group Managing Director the operational report and other reports and proposals and assurances as the Board considers necessary to ensure that Management authorities are being observed.

Recommendation 1.2 **Clear Roles and Responsibilities**

The Board assumes, among others, the following responsibilities:-

(i) Review and adopt strategic plan of the Group

The Board plays an active role in the development of the Group's strategy. The Board is presented with the short and long term strategy of the Group annually together with its proposed business plans for the ensuing year. The Board has adopted a two stage approach in formulation of the Group's strategy. The Board has assembled a team comprising of at least two board members with specific knowledge of the relevant industries to sit on the respective sub-holding entities for each of the Group's businesses to challenge and deliberate the Group's strategy before it is presented to the Board.

This process allows the respective sub-holding board members to provide valuable feedback and input as well as assurance that all appropriate considerations have been taken into account. The outcome of the deliberation is then tabled to the Board to ensure the best outcome.

The Board also reviews and approves the annual budget for the ensuing year and sets the Key Performance Indicators ("KPIs") which supports the Group's strategy and business plan.

(ii) Oversee the Conduct of the Group's Business

The Board oversees the performance of Management to determine whether the business is being properly managed. In this regard, the Group Managing Director is critical to the performance of the Group and provides the leadership and strategic vision of the Group. He is responsible for the day-to-day running of the business and operations of the Group including organisational effectiveness, implementation of Board policies and strategies and clarifies matters relating to the Group's business to the Board. His in-depth and intimate knowledge of the Group's affairs contributes significantly towards the direction of the Group to achieve its goals and objectives.

The Group Managing Director is supported by the Group Management Committee and other committees established under the Group. These committees have their own specific Terms of Reference to ensure that the objectives and aspirations of the Group are met.

The Board has established clear targets and KPIs to measure Management's performance. These targets and KPIs are tabled to the Board and deliberated on a quarterly basis. The Board is also kept informed of the significant operational highlights, issues and performance of the Group on a monthly basis through various reports to ensure they are kept updated with the latest development of the Group.

To ensure independence, the Group Risk Department provides the Board with a separate status report on a regular basis to update the Board on the enterprise risk. The Group Internal Auditor also provides the Audit and Compliance Committee with audit reports as and when audit assignments are completed.

(iii) Identifying principle risks and ensuring the implementation of appropriate internal controls and mitigation measures

The Board, through the Risk Management Committee determines the Group's level of risk tolerance and actively identifies, assesses and monitors key business risks to safeguard the Group. In managing risks, the Board has developed an Enterprise Risk Management ("ERM") Framework for the Group in line with the universally accepted standard ISO 31000 for Risk Management. A Risk Management Policy has been established to ensure the Group has an effective risk management programme and control system to facilitate the Group in meeting all its business objectives.

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The internal control mechanism established by the Board is embedded within the organisation structure in all its processes. The internal control system is independently reviewed by the Group Integrity and Assurance Department (formerly known as Group Internal Audit Department) to ensure its adequacy and integrity.

Details on the Report of the Risk Management Committee and Statement on Risk Management and Internal Controls are set out in this Annual Report on pages 70 to 73 and 80 to 82.

(iv) Succession Planning

The Board has entrusted the Nomination and Remuneration Committee with the responsibility to review and recommend to the Board, candidacy for boards within the Group and key responsible persons. These candidates go through a rigorous assessment prior to being invited to the respective boards or recruited as part of the key responsible persons to ensure that they have the sufficient experience and are the right fit for the Company.

The Group has, in place, a talent management programme to ensure the Group has talents to meet its future needs besides having a pipeline of successors for mission critical positions.

(v) Oversee the development and implementation of a shareholder communication policy

The Board values the dialogue with shareholders and appreciates the keen interest of shareholders on the Group's performance. In this regard, the Board has established a Shareholder and Investor Communication Policy to meet or otherwise communicate with the shareholders of the Group.

(vi) Review the adequacy and integrity of the management information and internal control systems

The Board is fully aware of the responsibilities to maintain a sound internal control system. The Board's responsibilities for the Group's system of internal controls cover not only financial aspects of the business but also operational, regulatory compliance as well as risk management matters. Details pertaining to the Company's internal control system and the review of its effectiveness are set out in the Statement on Risk Management and Internal Control in the Annual Report on pages 80 to 82.

Recommendation 1.3

Formalise Ethical Standards through a Code of Conduct and Ensure its Compliance

The Group has in place, Directors' Code of Best Practice and a Code of Conduct to govern the standard of ethics and good conduct expected of Directors and employees respectively. The Directors' Code of Best Practice includes among others, matters relating to their duties and conduct as Directors, conflict of interests and conduct in meetings. On an annual basis, the Directors are also required to submit a Directors' Confirmation Form to the Company confirming their remuneration and benefits, interest in shares and debentures and any related party transactions with the Group.

The Board has approved a Code of Conduct which commits the employees to ethical values and standards of conduct expected of them. It is based upon the Group's vision, mission and core values and embodies the principles contained in various policies adopted by the Group and gives guidance on how employees and other people affected by the Code of Conduct should apply the core values to the Group's businesses and activities. The Code of Conduct covers among others, all aspects of the business operations such as confidentiality of information, dealings in securities, conflict of interest, provision of gifts and gratuities, anti-bribery and sexual harassment.

As part of best practices in good corporate governance, the Group has also established a "Whistle-Blowing" policy, which provides an avenue for employees to report on their concerns of any wrongdoing within the Group relating to unlawful conduct, financial malpractice or dangers to the public or the environment. In this respect, the policy makes it clear that such concerns can be raised without fear of victimisation, recrimination, discrimination or disadvantage to the employee reporting the concern. It provides a formal channel to encourage and enable employees to report serious concerns so that such concerns can be properly addressed.

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To further enhance its good corporate governance practices and strengthen the ethical standards within the Group, in September 2013, the Board has approved the establishment of an Integrity Unit to manage integrity issues within the organisation. The unit, among others, is responsible for the following:-

- Governance – to ensure the conduct of best practices in governance;
- Strengthen integrity – to ensure that integrity is inculcated into the Group’s culture and is institutionalised in the actions of all employees;
- Detection and verification of wrongdoings – to detect and confirm the information/complaints on criminal misconducts as well as violations of the Group’s Code of Conduct and business ethics and to ensure that follow-up actions are duly taken. The unit is also responsible for reporting the criminal misconducts to the relevant enforcement agencies;
- Complaint management – to receive and take the necessary actions on all information/complaints received on criminal misconducts as well as violations of the Group’s Code of Conduct and business ethics;
- Compliance – to ensure compliance with laws and regulations; and
- Disciplinary actions – to be the secretariat function to the Integrity Committee.

The function of the Integrity Unit is under the purview of the Audit and Compliance Committee. The Integrity Unit has set up a hotline at ccmintegrity@gmail.com for any parties to whistle blow on any concerns affecting them.

Recommendation 1.4

Strategies Promoting Sustainability

The Board understands the importance of sustainability in operating its businesses and is committed towards achieving sustainability that shall benefit stakeholders, environment, our people and the community. In achieving this, the Board has approved a Corporate Sustainability policy focusing on stakeholder and marketplace expectation, environment, workplace sustainability and community needs.

In ensuring strong and sustainable business, the Group will continue to consolidate its efforts to ensure a strong culture of Continuous Improvement with Safety, Health and Environment (“SHE”) in mind; implementing all Sustainability programmes based on the Group’s core values.

In 2014, CCM Operational Excellence programmes have contributed RM18.2 million towards Operating Profit and a total of RM37.6 million since June 2012. To ensure consistent quality process, CCM Innovative Solutions and CCM Duopharma were both certified with ISO 9001:2008 whilst CCM Fertilizers was certified with MS1900 Quality Management System from Islamic Perspective.

On Safety, Health and Environment the Group have improved Total Recordable Case Frequency to 1.34 against a target of 2.7. The Group will continue with its SHE Week programme to continuously instil SHE practices especially at all manufacturing sites. In line with Excellence, CCM Chemicals was awarded the Gold Award for Distribution Code and Community Awareness & Emergency Response Code, Silver Award for Process Safety Code, Pollution Prevention Code, and Employee Health & Safety Code. These awards reflect the Group’s commitment to Chemical Industry 6 Code of Management practice and Guiding Principles. CCM Chemicals Sdn. Bhd. also participated actively in Chemical Industries Council Malaysia’s (“CICM”) Sound Chemical Management Proposal to promote better way in chemicals handling.

The Group was also awarded the PNB Islamic Initiative Award within the PNB Group. CCM Fertilizers also won the Malaysian Standard User Award being the first company with this certification in the fertilizer industry. Led by Halal Industry Development Corporation, the Group participated in developing the Halal plan for the 11th Malaysia Plan.

Recommendation 1.5

Access to Information and Advice

The Chairman is primarily responsible for ensuring that sufficient information is provided to the Board members to assist them in their deliberation. She ensures that all relevant issues and quality information to facilitate decision making and effective running of the Group’s business are included in the agenda of Board meetings. In doing so, the Chairman will liaise with the Group Managing Director and the Company Secretary on the agenda for Board meetings. Board meetings are scheduled a year ahead in order to ensure full attendance. A minimum of four (4) Board meetings are held during the year. Additional meetings are held as and when required.

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There is a formal agenda for all scheduled meetings and Board papers are prepared and submitted in advance to ensure adequate information is available to assist deliberation by Board members. The Board papers include, among others, the following:-

- Minutes of Meetings/Reports of all Board Committees;
- Business plan and direction;
- Current operating and business issues;
- Annual budget review, forecasts and projections;
- Quarterly and annual financial reports;
- Potential acquisitions and disposal of assets of substantial value;
- Major investment and financial decisions;
- Key policies, procedures and authority limits; and
- Reports, advices and opinions of external consultants/advisors as had been sought for.

During the financial year, seven (7) Board Meetings were held. Details of the Directors' meeting attendance during the financial year are as follows:-

Name of Directors	No. of Meeting Attendance
Dato' Sri Azalina binti Othman Non-Independent Non-Executive Chairman	5/7
Dato' Azmi bin Mohd Ali Non-Independent Non-Executive Director	7/7
Khalid bin Sufat Senior Independent Non-Executive Director	7/7
Dr. Leong Chik Weng Independent Non-Executive Director	6/7
Dato' Seri Ir. Dr. Zaini bin Ujang Non-Independent Non-Executive Director	7/7
Datin Paduka Kartini binti Hj. Abdul Manaf Non-Independent Non-Executive Director	7/7
Datin Paduka Siti Sa'diah binti Sh Bakir Independent Non-Executive Director (Appointed w.e.f. 19 December 2014)	0/7
Datuk Karownakaran @ Karunakaran A/L Ramasamy Independent Non-Executive Director (Resigned w.e.f. 31 December 2014)	7/7
Amirul Feisal bin Wan Zahir Group Managing Director (Resigned w.e.f. 1 October 2014)	5/7

Following the resignation of Amirul Feisal bin Wan Zahir as the Group Managing Director on 1 October 2014, the Board has approved the appointment of Leonard Ariff bin Abdul Shatar as the new Group Managing Director on 9 January 2015.

All directors have the same right of access to all information within the Group and the duty to make further enquiries which they may require in discharging their duties including seeking independent professional advice, if necessary, at the Company's expense. Minutes of proceedings and resolutions passed at each Board and Board Committees meetings are kept in the statutory register at the registered office of the Company and are accessible to all Directors.

The Company also provides a platform for dialogue between the Board and the Directors of each Division either at Board meetings, Board training or during the business unit visits. This will assist the Board in arriving at business and strategic decisions relating to the Group. The Directors also have access to the advice and services of the Company Secretary who is available to provide them with the appropriate advice and services and also to ensure that the relevant procedures are followed.

The Directors are regularly updated on the latest developments in the legislations as well as statutory and regulatory requirements relating to the duties and responsibilities of Directors. When necessary, the Directors also visit locations of business units which would assist the Board to make effective decisions relating to the Group.

Recommendation 1.6

Qualified and Competent Company Secretary

The appointment or removal of Company Secretary or Secretaries of the Board shall be the prerogative of the Board as a whole. The Board is currently assisted by two qualified and competent Company Secretaries in ensuring that Board procedures are followed and the applicable rules and regulations for the conduct of the affairs of the Board are complied with. The Company Secretary also plays an important role as a gatekeeper of corporate governance. All Board Members, particularly the Chairman, have unrestricted access to the advice and services of the Company Secretary for the purposes of the Board's affairs and the business.

Recommendation 1.7

Board Charter

The Board Charter sets out the authority, responsibilities, membership and operation of the Board in adopting principles of good corporate governance and practice, in accordance to applicable laws. The document clearly states the roles and responsibilities of the Board and Board Committees and the processes and procedures for convening their meetings. It also serves as a reference for all Board members as well as a primary induction literature for newly appointed Board members in providing insights into the fiduciary and leadership functions of the Board.

The Board endeavours to comply at all times with the principles and practices set out in this Charter. Any updates to the principles and practices set out in the Charter will be made available on the Company's website, www.ccmerhad.com.

PRINCIPLE 2

STRENGTHEN COMPOSITION

The Company's Articles of Association stipulates that the minimum and maximum number of directors on the Board shall not be less than three (3) or more than twelve (12). An alternate director shall not be counted in the determination of minimum or maximum number of directors on the Board.

The Group considers its complement of Non-Executive Directors provide an effective Board with a mix of industry specific knowledge and broad business and commercial experience. The presence of Independent Non-Executive Directors is particularly important in corporate accountability. They constructively challenge and contribute to the development of the business strategies and direction of the Group. This balance enables the Board to provide clear and effective leadership to the Group and to bring informed and independent judgment to many aspects of the Group's strategies and performance so as to ensure that the highest standards of conduct and integrity are maintained. The classification for independence is in accordance with paragraph 1.01 (Definition and Interpretations of Bursa Malaysia's Main Market Listing Requirements).

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The Senior Independent Non-Executive Director is available to deal with concerns affecting the Group, other than through the Chairman. The Senior Independent Director is expected to ensure that all independent directors have the opportunity to provide input for the agenda, and advise the Chairman on the quality, quantity and the timeliness of the information submitted by Management that is necessary for the independent directors to perform their duties effectively. He is also the principal conduit between the independent directors and the Chairman on sensitive issue and the designated contact for consultation and direct communication with shareholders on areas that cannot be resolved through the normal channel of contact with the Chairman or Group Managing Director. Khalid bin Sufat has been appointed the Senior Independent Non-Executive Director.

The Board currently has eight (8) Directors of whom three (3) are Independent Directors. The composition of the Board was maintained so that at any one time, at least three (3) or one-third (1/3) of the Board, whichever is higher, shall be independent. A brief profile of each Director is presented on pages 32 to 39 of the Annual Report.

In ensuring that the composition of the Board is strengthened, the Board has entrusted the Nomination and Remuneration Committee to implement policies and procedures with respect to selection and nomination of Board and Board committees, review of Board's succession plans and training programmes for the Board.

Recommendation 2.1

Nomination and Remuneration Committee

The Company has in place a Nomination and Remuneration Committee ("NRC") with specific terms of reference. The NRC comprise of three members who are Non-Executive Directors with the majority being independent directors. The Chair of the Committee is held by the Senior Independent Director, Khalid bin Sufat.

Details pertaining to the NRC and its terms of reference are set out in the Annual Report on pages 74 to 76.

Recommendation 2.2

Develop, Maintain and Review Criteria to be used in Recruitment Process and Annual Assessment of Directors

(i) Recruitment/Appointment of Directors

One of the Terms of Reference of NRC is to recommend to the Board, candidates to fill all directorships and Board Committees within the Company and the Group, be it a new appointment or re-election/re-appointment. In executing this role, the NRC is guided by the Group's Board Nomination and Selection Process which has been approved by the Board. The Board Nomination and Selection Process outlines the skill sets, knowledge/experience, mindset and the intrinsic values required of the concerned director vis-a-vis the need of the Company. The process also provides the relevant point of reference in identifying the most suitable candidates to sit on the Board.

The NRC is responsible for reviewing, on an annual basis, the appropriate skills, experience and characteristics required for Board Members. The Chairman of the Board is required to actively participate in the selection of Board Members. A formal invitation to join the Company as a Board Member would be extended by the Chairman after approval from the Board.

The proposed appointment of a new member to the Board as well as the proposed re-appointment and re-election of Directors seeking re-election at the Annual General Meeting ("AGM") are recommended by the NRC to the Board for their approval. The Company's Articles of Association provide that at least one third (1/3) of the Board are subject to retirement by rotation at each AGM provided always that each Director shall retire at least once in every three years. The Directors to retire in each year are the Directors who have been longest in office since their appointment or re-appointment. This provides an opportunity for shareholders to renew their mandate. To assist shareholders in their decision, sufficient information such as personal profile, meeting attendance and the shareholdings in the Company of each Director standing for election are furnished in a separate statement accompanying the Notice of AGM.

Director who is over seventy (70) years of age shall retire at every AGM and may offer himself for re-appointment to hold office until the Company's next AGM in accordance with Sections 129 (2) and 129 (6) of the Companies Act, 1965.

The Company has in place a succession planning programme which inter alia includes appointing, training, fixing of compensation and replacing Directors and senior management of the Group.

For the current year, the Board is recommending to the shareholders that Dato' Azmi bin Mohd Ali, Datin Paduka Kartini binti Hj. Abdul Manaf, Datin Paduka Siti Sa'diah binti Sh Bakir and Leonard Ariff bin Abdul Shatar be re-elected as directors of the Company at the forthcoming AGM.

(ii) Induction Programme

As part of the familiarisation process, newly appointed Board members are required to undergo an Induction Programme specially designed to familiarise the directors with the businesses within the Group. This familiarisation process includes briefing session on the range of products and services, business structure and visits to the respective operating facilities. The visits will include briefings from the Division's management to provide in-depth knowledge of the latest progress of the Division and appreciation of the key drivers behind the Group's core businesses.

(iii) Board Evaluation Assessment ("BEA")

The Group has in place a Board Evaluation Assessment ("BEA") which is conducted on an annual basis. The Board Evaluation criterias are based on the Green Book - Enhancing Board Effectiveness as well as guidelines and best practices issued by Bursa Malaysia and other relevant authorities which are based on the following main components:-

- Structuring a high performing Board;
- Ensuring a day-to-day Board operations and interactions; and
- Fulfilling fundamental Board roles and responsibilities at best practice levels.

The NRC is given the task to review annually the activities and effectiveness of the Board, Board Committees and the individual Board Members. The results of such evaluation will be discussed with the Committee and/or the Chairman and subsequently will be tabled to the Board. Actionable improvement programme will be developed to improve the performance of the Board.

(iv) Boardroom Diversity

The Board recognises the importance of diversity as an essential measure of good governance. Consequently, as part of the Board's Selection and Nomination process, due emphasis will be given to ensure that the Board of the Company comprises members from a diverse background of skills, professional experience, age, ethnicity and culture to provide different perspective and viewpoints for better decision making. The Board currently comprised of seven (7) Bumiputera Directors and one (1) Non-Bumiputera director. Seven directors are in the 50 – 59 years age group while one director is in the 60 years and above age group.

The Board at its meeting in February 2015 has also given their commitment on gender diversity by adopting a policy to ensure that at least 30% women directors on the Board. With the appointment of Datin Paduka Siti Sa'diah binti Sh Bakir as the Independent Non-Executive Director on 19 December 2014, the Board now comprise of five (5) male directors and three (3) female directors.

(v) Remuneration Policy

The remuneration of Directors is determined at levels which enable the Group to attract and retain Directors with the relevant experience and expertise to manage the Group successfully.

The component parts of remuneration are structured so as to link rewards to corporate and individual performance, in the case of the Group Managing Director. In the case of Non-Executive Directors, the Board has established a formal and transparent remuneration policy to attract and retain Directors, motivate Directors to achieve Company's objective and align interest of Directors with long-term interest of shareholders. The level of remuneration for Non-Executive Directors is based on their responsibilities in Committees and the Board, their attendance and/or special skills and expertise they bring to the Board.

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(a) Directors' Remuneration

The Non-Executives Directors are entitled to directors' fees. The Board has recommended to shareholders in 2012 for a proposed revision to the directors' fees so that it is in line with market and industry's practice. The proposal has been approved at the Annual General Meeting of the Company in 2012. As a result of the approval, the Chairman of the Board now receives a director's fee of RM100,000 per annum while each Non-Executive Directors receive director's fees of RM75,000 per annum.

In addition to the directors' fees, the Non-Executive Directors are also entitled to Board Committee Fees on which they sit and meeting allowance for each meeting attended.

The Group Managing Director is not entitled to receive any directors' fees, board committee fees or meeting allowance. The Group Managing Director's remuneration comprises of a fixed component which includes a monthly salary and benefit-in-kind/emoluments and a variable component in the form of performance bonus.

The aggregate remuneration of Directors categorised into appropriate components for the financial year ended 31 December 2014 is as follows:-

	Category of Directors	
	Group Managing Director (RM)	Non-Executive Directors (RM)
Fees	–	654,000
Allowance	–	299,200
Salaries and Bonus	991,341	–
Other Emoluments	280,475	–
Benefits-in-Kind	45,677	–
Total	1,317,493	953,200

Range of Remuneration	Executive	Non-Executive
RM1 to RM50,000	–	1
RM50,001 to RM100,000	–	1
RM100,001 to RM150,000	–	5
RM150,001 to RM200,000	–	–
RM200,001 and above	1 ¹	1

Note:

¹ Indicates the remuneration of the former Group Managing Director who resigned on 1 October 2014.

(b) Directors and Officers Liability Insurance

In addition to the directors remuneration above, the directors are provided with a Directors and Officers Liability Insurance in respect of any liability arising in the course of discharging their duties as directors of the Company provided always that such liability occurs in good faith and not as a result of dishonesty, fraud, insider trading, malicious conduct and/or intentional breach of contract.

PRINCIPLE 3

REINFORCE INDEPENDENCE

The Independent Non-Executive Directors provide an unbiased and independent view in ensuring that the strategies proposed by Management are fully deliberated and examined in the interest of the Group, minority shareholders, employees and the business communities in which the Group conducts its business.

Recommendation 3.1

Annual Assessment of Independent Directors

The Board consists of seven (7) Non-Executive Directors and one (1) Executive Director. Three (3) of the Non-Executive Directors are independent. In ensuring that independent judgments are not compromised, the Board has adopted a policy on assessment of independence on its independent directors which is conducted on an annual basis or as and when a disclosure is made by any Director in respect of any new interest or relationship. The policy makes reference to Chapter 1 and Practice Note 13 of Bursa Malaysia's Main Market Listing Requirements.

Based on the assessment conducted recently, the Board is generally satisfied with the level of independence demonstrated by the independent directors and their ability to act in the best interest of the Group.

Recommendation 3.2 and 3.3

Tenure of Independent Director

One of the recommendations under the Code is to limit the tenure of independent directors to not more than nine (9) years, cumulatively. The recommendation is based on the view that the independence of an independent director may be affected if his tenure exceeds a cumulative term of nine years either in a consecutive service of nine years or cumulative service of nine years interval. The Board may, upon the completion of the nine years, re-designate the independent directors to a non-independent director if it is so determined that the expertise and experience of the independent director is still relevant to the Group (Recommendation 3.2) The Board may also justify and seek the shareholders' approval to otherwise retain the Independent Director who has served in that capacity for more than nine (9) years as Independent Director (Recommendation 3.3). Currently, the tenure of all Directors on the Board has not exceeded nine (9) years.

Recommendation 3.4 and 3.5

Position of Chairman and CEO and Board Balance

There is a division of responsibility between the Chairman and the Group Managing Director to ensure a balance of power and authority. The roles of the Chairman and the Group Managing Director are separate and clearly defined (Recommendation 3.4). As part of good corporate governance, the Chairman is responsible for ensuring board effectiveness and conduct. She ensures that all relevant issues and quality information to facilitate decision making and effective running of the Group's business are included in the meeting agenda. In doing so, the Chairman will liaise with the Group Managing Director and the Company Secretary on agenda for Board meetings. The Chairman encourages healthy debates on issues raised at meetings and gives opportunity to directors who wish to speak on the motions, either for or against them. Every Board resolution is then put to a vote which would reflect the collective decision of the Board and not the views of an individual or an interested group. The Chairman also chairs the meeting of shareholders of the Group.

At the general meetings of the Group, the Chairman will ensure that the shareholders are given the opportunity to enquire on the Group's affairs. The Group Managing Director focuses on the business and the day-to-day management of the Company and Group. He is the conduit between the Board and Management in ensuring the success of the Group's governance and management functions. The Group Managing Director implements the policies, strategies and decisions adopted by the Board.

The Board is chaired by a Non-Independent Non-Executive Chairman. Whilst the Company supports the recommendations made under the Code, the Company maintains that the Chairmanship of the Board shall continue to be held by a Non-Independent Non-Executive Director. At the moment, the Board is of the view that the Chairman will remain objective in expressing her views and will allow all Board members the opportunity to participate and express their views in deliberations and decision making in the Board without fear or favour. In addition, any decisions arrived at the Board are made on consensus. Despite this, the Board will endeavour that the composition of the independent directors comprise of more than one third (1/3) of the Board to ensure balance of power and authority on the Board (Recommendation 3.5).

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PRINCIPLE 4

FOSTER COMMITMENT

Recommendation 4.1

Time Commitment

The Board has established a formal and transparent policy on the Appointment of Directors. In recommending or nominating a candidate to fill the position of Director of the Company, the Board will consider the candidate's ability to devote sufficient time to effectively discharge the duties as a director of the Company. This includes attendance of at least 50% of all board of directors and board committee meetings, or as determined from time to time by the Board. Appointed directors are also expected to devote their time to other matters involving the Company's affairs. In addition to the policy above, the time commitment required of the Directors are also incorporated as one of the terms in their appointment letter to the Board.

Any Board Member, while holding office, is at liberty to accept other Board appointments (outside the Group) so long as the appointment is not in conflict with the business of the Company and Group or does not detrimentally affect the director's performance as a Board member. All such appointments must first be discussed with the Chairman or the Board before being accepted.

In line with Bursa Malaysia's Main Market Listing Requirements ("MMLR"), Directors are also required to comply with the requirements of having not more than five (5) directorships in listed companies. This allows them to devote their time and discharge their duties effectively for the companies in which they are directors. Board meetings are scheduled a year ahead in order to enable full attendance.

Recommendation 4.2

Continuing Education Programme

The Board acknowledges the importance of continuous education and training to enable effective discharge of its responsibility. All Board members have attended the Mandatory Accreditation Programme as prescribed by MMLR and the costs are borne by the Company.

The Continuing Education Programme focuses on business specific issues relating to the Group and the latest development within the related industries and is conducted in-house at least two times a year. The programme is extended to all Directors and Senior Management of the Group. The Directors had on their own initiatives, requested to attend ad-hoc trainings, seminars or conferences conducted by third party to enhance their knowledge or skills in specific areas. The costs of attending such training or forum are borne by the Group. The training/seminars/conferences attended by Directors cover the areas of law, corporate governance, finance, tax, pharmaceutical industry and corporate integrity.

During the year, the Group has organised "Training on Corporate Integrity" and "IMS Briefing on Pharmaceuticals Industry" for the Directors and Senior Management of the Group which were facilitated by industry experts as part of the Continuing Education Programme.

The "Training on Corporate Integrity" was organised for the Directors and Senior Management on 2 April 2014 to introduce the Group to the creation of Integrity culture and as a stepping stone for the Group to be involved in the integrity initiative in order to promote the Anti-Corruption Principles of Transparency, Integrity and Good Corporate Governance and to enable the Group's top personnel to gain a deeper understanding of the National Integrity Plan ("NIP"), CCM Corporate Integrity initiatives, issues pertaining to corporate fraud and other related issues with regards to integrity knowledge.

In respect of the breakfast training on "IMS Briefing on Pharmaceuticals Industry" which was held on 22 June 2014, the Board was briefed on the latest development in the pharmaceutical industry, in particular the biosimilar business in Malaysia and the ASEAN region.

PRINCIPLE 5

UPHOLD INTEGRITY IN FINANCIAL REPORTING

Recommendation 5.1

Compliance with Applicable Reporting Standards

The Board is aware of its responsibilities to shareholders and the requirement to present a balanced and comprehensive assessment of the Group's financial position and prospects. In this regard, the Board has delegated to the Audit and Compliance Committee to ensure that the preparation of financial statements comply with Companies Act, 1965 and approved Malaysia Financial Reporting Standards and that the accounts give a true and fair view of the state of affairs of the Group at the end of the financial year.

The Audit and Compliance Committee meets on a quarterly basis to review the integrity and reliability of the financial statements in the presence of the Director, Finance and Group Internal Auditor prior to recommending them for Board approval.

The Audit and Compliance Committee, with the assistance and assurance of the Group Internal Auditor, also reviews the internal control within the organisation in ensuring the custody, effective and efficient utilisation of Group assets.

Recommendation 5.2

Suitability and Independence of External Auditors

The Audit and Compliance Committee reviews the performance of the External Auditor on an annual basis after completion of the year-end audit on the suitability and independence of the External Auditors. In evaluating the suitability and effectiveness of external audit, the Audit and Compliance Committee will review the overall comprehensive external audit plan, the timeliness and quality of deliverables and the competency/adequacy of the resources to achieve the scope outlined in the audit plan.

The Board has also approved a policy on External Auditors' Independence whereby the Audit and Compliance Committee is given the task to review and assess the independence of the External Auditor annually at the time the External Auditor presents its annual audit plan. It is expected that the External Auditor will rigorously comply with its own internal policies on independence and all relevant professional guidance on independence. The Audit and Compliance Committee will further ensure that the policies governing the provision of non-audit fees are observed.

The Audit and Compliance Committee held two (2) meetings with the External Auditors without the presence of Management during the financial year under review.

PRINCIPLE 6

RECOGNISE AND MANAGE RISKS

The Directors are fully aware of the responsibilities to maintain a sound system of internal controls to safeguard shareholders' investment and the Group's assets. The Directors' responsibilities for the Group's system of internal controls cover not only financial aspects of the business but also operational and compliance control as well as risk management matters.

Recommendation 6.1

Establish Sound Framework to Manage Risks

The Board, through the Risk Management Committee ("RMC"), determines the Group's level of risk tolerance and actively identify, assess and monitor key business risks to safeguard shareholders' investment and the Group's assets.

The Group's risk management function is performed by the Group Risk Department who reports the results of the risk management activities to RMC. The Department facilitates the risk management processes within the Group.

The Group's ERM Framework is automated and is aligned with the methodologies of ISO 31000 guidelines on managing risks. It includes quantification of risks, review of CCM Risk Universe and adopt a KPI linked risk reporting.

Statement on Corporate Governance

A Group Risk Management Policy has been established to ensure an effective risk management programme and control systems and thereby facilitating the Company in meeting its business objectives.

Recommendation 6.2 **Internal Audit Function**

The Group has established an internal audit function which is performed in-house by the Group Integrity and Assurance Department (formerly known as the Group Internal Audit Department) that reports to the Audit and Compliance Committee. The internal audit function is independent of the activities performed with impartiality, proficiency and due professional care.

The internal audit function is well resourced and critically reviews all aspects of the Company's activities and internal controls. Comprehensive audits of the practices, procedures, expenditure and internal controls of all business and support units and subsidiaries are undertaken on a regular basis.

The Group Internal Auditor has direct access to the Board through the Chairman of the Audit and Compliance Committee.

The Group Internal Audit function is to assist the Audit and Compliance Committee and the Board of Directors as follows:-

- Perform regular review on compliance of operational procedures using risk-based audit approach; and
- Conduct investigations on specific areas or issues as directed by Audit and Compliance Committee and the Management.

Details of the Company's internal control system and framework are set out in the Statement on Risk Management and Internal Control, the Risk Management Committee Report and Audit and Compliance Committee Report of this Annual Report on pages 80 to 82, 70 to 73, and 64 to 69 respectively.

PRINCIPLE 7 **ENSURE TIMELY AND HIGH QUALITY DISCLOSURE**

Recommendation 7.1 **Corporate Disclosure Policy**

The Group has long observed the continuing disclosure obligation imposed on a listed issuer by Bursa Malaysia. The Group has put in place a Corporate Disclosure Policy and Procedures for the following purposes:-

- (a) Provide shareholders, investors, analysts, media representatives and other stakeholders with comprehensive, accurate and quality information issued by the Group on a timely and even basis;
- (b) Raise awareness and provide guidance to the Board, Management, officers and employees on the Group's disclosure requirements and practices;
- (c) Ensure that the Group meets its disclosure obligations in accordance with the securities laws and regulations governing corporate disclosure and confidentiality in relation to securities listed on Bursa Malaysia;
- (d) Ensure that the Group observes best practices in relation to disclosure as illustrated in the Corporate Disclosure Guide by the Exchange; and
- (e) Promote investor confidence in the integrity of the Company.

The policy is applicable to the conduct of directors, officers, managers and employees of the Group and to all method that the Group uses to communicate with the investing public in the dissemination of material information especially price sensitive information.

Statement on Corporate Governance

The following material information and material developments have been released to shareholders via the Bursa Malaysia Link on a timely manner:-

Date of Announcement	Subject Matter of Material Information
2 January 2014	Announcement on the completion of the Proposed Internal Restructuring Exercise on the Acquisition by CCM Usaha Kimia (M) Sdn. Bhd. (“UKSB”) of 99.07% Equity Interest in CCM Innovative Solutions Sdn. Bhd. (“CCMIS”) and 80% Equity Interest in CCM Chemicals Sdn. Bhd. (“CCMC”) from the Company dated 1 November 2013.
13 February 2014	Proposed disposal by the Company of 2 contiguous parcels of freehold land together with 3 units of double-storey detached houses erected on Geran 25607, Lot 17, Seksyen 71, Bandar dan Daerah Kuala Lumpur, Wilayah Persekutuan Kuala Lumpur and Geran 14977, Lot 332, Seksyen 71, Bandar Kuala Lumpur, Daerah Wilayah Persekutuan (“Properties”) to Permodalan Nasional Berhad for a total cash consideration of RM74,814,000 (“Proposed Disposal”).
21 April 2014	Members Voluntary Winding-Up of i) CCMF Agronomic & Technical Services Sdn. Bhd. ii) Usaha Progresif Sdn. Bhd. iii) Liberal Wira Sdn. Bhd. iv) Euphorex Corporation Sdn. Bhd. v) CCM Chemtrans Sdn. Bhd.
27 June 2014	Proposed Restructuring Exercise involving the disposal of the Company’s 50.1% equity interest in CCM Fertilizers Sdn. Bhd. and 100 % equity interest, in both CCM Agriculture (Sabah) Sdn. Bhd. and CCM Agriculture Sdn. Bhd. (collectively referred to as the “Target Companies”) to its wholly-owned subsidiary, CCM Agri-Max Sdn. Bhd. (“Proposed Internal Restructuring”).
2 September 2014	Resignation of Group Managing Director
19 November 2014	Announcement on the completion of the Proposed Restructuring Exercise involving the disposal of the Company’s 50.1% equity interest in CCM Fertilizers Sdn. Bhd. and 100 % equity interest, in both CCM Agriculture (Sabah) Sdn. Bhd. and CCM Agriculture Sdn. Bhd. (collectively referred to as the “Target Companies”) to its wholly-owned subsidiary, CCM Agri-Max Sdn. Bhd.

27 November 2014

Execution of the following Share Sale Agreements (“SSA”) (hereinafter referred to as the “Proposed Disposals”) in relation to the following:

SSA 1:

- (i) Proposed disposal of 8,000,000 CCM Pharmaceuticals Sdn. Bhd. (“CCMP”) Shares, representing 100% of the issued and paid-up share capital of CCMP, for a disposal consideration of RM17,599,000 and the settlement of outstanding inter-company advances owed by CCMP to CCM Group as at 30 September 2014; and
- (ii) Proposed disposal of 200,000 Innovax Sdn. Bhd. (“Innovax”) Shares, representing 100% of the issued and paid-up share capital of Innovax, for a disposal consideration of RM1,000 and the settlement of outstanding inter-company advances owed by Innovax to CCM Group as at 30 September 2014;

SSA 2:

- (i) Proposed disposal of 3,300,000 CCM Pharma Sdn. Bhd. (“CCM Pharma”) Shares, representing 100% of the issued and paid-up share capital of CCM Pharma, for a disposal consideration of RM34,942,000 and the settlement of outstanding inter-company advances owed by CCM Pharma to CCM Group; and
- (ii) Proposed disposal of 30,000,000 UPHA Pharmaceutical Manufacturing (M) Sdn. Bhd. (“UPHA”) Shares, representing 100% of the issued and paid-up share capital of UPHA, for a disposal consideration of RM78,365,000 and the settlement of outstanding inter-company advances owed by UPHA to CCM Group as at 30 September 2014;

SSA 3:

- (i) Proposed disposal of 1,600,000 CCM Singapore Pte. Ltd. (“CCMSPL”) Shares, representing 100% of the issued and paid-up share capital of CCMSPL, by CCM International Sdn. Bhd. (“CCMI”) for a disposal consideration of RM2,417,000 and the settlement of outstanding inter-company advances owed by CCMSPL to CCM Group as at 30 September 2014; and

SSA 4:

- (i) Proposed disposal by CCM Investments Limited (BVI) (“CCM Investments”) of the entire enlarged issued and fully paid-up share capital of CCM International (Philippines), Inc. (“CCMI (P)”) including 5 CCMI (P) Shares held by five (5) directors of CCMI (P) for CCM Investments for a disposal consideration of RM1,000 and the capitalisation of inter-company advances made by CCM Investments or CCM Group to CCMI (P) and for that purpose, issuance of new shares in CCMI (P) to CCM Investments.

The completion of the transactions is currently pending the fulfilment of the Conditions Precedents.

19 December 2014	Appointment of Datin Paduka Siti Sa'diah binti Sh Bakir, as an Independent, Non-Executive Director of the Company.
24 December 2014	Execution of Supplementary Agreement 1 and Supplementary Agreement 2 pertaining to the Proposed Disposals to amend the terms of SSA 1 and SSA 2 , respectively.
31 December 2014	Resignation of Datuk Karownikaran@ Karunikaran A/L Ramasamy, Independent, Non-Executive Director, from the Board.
31 December 2014	Change in Audit Committee

Recommendation 7.2

Leverage on Information Technology for Effective Dissemination

The Group uses its website to disseminate information and enhance its investor relations. The Group's website, www.ccmberhad.com, contains information about the Company/Group, its products and businesses, announcements which have been made available to the public as well as other areas of interest to the public. The website contains a section on Investor Relations which provides the investing public with all material information documents which have been released.

All timely disclosure and material information documents will be posted on the website as soon as possible after their release by the news wire service.

PRINCIPLE 8

STRENGTHEN RELATIONSHIP BETWEEN COMPANY AND SHAREHOLDERS

Recommendation 8.1

Encourage Shareholder Participation at General Meetings

Notices of general meetings and the accompanying explanatory materials are provided within the prescribed time or earlier than the minimum notice period prior to the meetings on the Bursa Malaysia website and by post to shareholders. This allows shareholders to make the necessary arrangements to attend and participate either in person, by corporate representative, by proxy or by attorney.

To encourage participation in general meetings, the Company has in 2012, removed the limit on the number of proxies to be appointed by an exempt authorised nominee which holds ordinary shares in the Company for multiple beneficial owners in one securities account. The Company has also included a new provision in its Articles of Association in respect of the qualification and the right of a proxy to speak at general meetings. Under the new provision, any person could be appointed by the shareholders as a proxy. The proxy shall have the same rights as the shareholder to speak at the meeting.

Recommendation 8.2

Encourage Poll Voting

Shareholders also have the right to demand poll vote for substantive resolutions and the detailed results showing the number of votes cast for and against each resolution will be announced through Bursa Malaysia.

At the last AGM, the Company had highlighted the right of the shareholders to demand for poll voting. However, the shareholders have opted for voting to be done by show of hands and resolutions put forth for shareholders' approval at the last AGM were voted on by show of hands.

Statement on Corporate Governance

Recommendation 8.3

Effective Communication and Proactive Engagement

The Company encourages shareholders to ask questions and provide constructive feedback on the performance of the Company. Members of the Board, the Group's Senior Management, as well as the Group's auditors will be present to answer questions about the Group's affairs. In addition to the normal agenda for the AGM, the Board also presents the progress and performance of the business as contained in the Annual Report.

The Board believes that Management speaks for the Group. In this instance, the Group has adopted a Shareholders & Investors Communication Policy to provide sufficient information to shareholders to allow them to effectively evaluate the performance of the Company. The Company has adopted the following communication channels with shareholders:-

(a) Annual General Meeting

The Annual General Meeting ("AGM") provides a forum for dialogue with shareholders and aims to ensure that the AGM provides an important opportunity for effective communication with and constructive feedback from the Company's shareholders. Members of the Board, the Group's Senior Management, as well as the Group's auditors will be present to answer questions about the Group's affairs. In addition to the normal agenda for the AGM, the Board presents the progress and performance of the business as contained in the Annual Report and provides opportunities for shareholders to raise questions pertaining to the business activities of the Group. Shareholders who are unable to attend are allowed to appoint proxies to attend and vote on their behalf. Where necessary, the Chairman or the Group Managing Director will undertake to provide written answers to any significant questions that cannot be readily answered at the meeting.

The turnout of shareholders at the Company's AGM has always been large. A total of 578 shareholders and 1,074 proxies attended the AGM in 2014.

(b) Extraordinary General Meetings

Extraordinary General Meetings ("EGM") will be held as and when required. The Directors will consider requisitions by shareholders to convene EGM or any other urgent matters requiring immediate attention of the Company.

Notices of general meetings and the accompanying explanatory materials are provided within the prescribed time or earlier than the minimum notice period prior to the meetings on the Bursa Malaysia website and by post to shareholders. Shareholders also have the right to demand poll vote for substantive resolutions and the detailed results showing the number of votes cast for and against each resolution will be announced through Bursa Malaysia.

The Company had conducted an Extraordinary General Meeting on 21 January 2014 to approve the disposal of two contiguous parcels of freehold land together with three units of double-storey detached houses to Permodalan Nasional Berhad. Since the transaction was a related party transaction, the voting was carried out by poll.

Additionally, on 10 March 2015, an Extraordinary General Meeting was also conducted to approve the disposal of the following companies for a total cash consideration of RM133,325,000:

- (i) 8,000,000 ordinary shares of RM1.00 each in CCM Pharmaceuticals Sdn. Bhd., representing 100% of its issued and paid-up share capital, by Chemical Company of Malaysia Berhad ("CCMB") to CCM Duopharma Biotech Berhad ("CCMD") for a disposal consideration of RM17,599,000;
- (ii) 200,000 ordinary shares of RM1.00 each in Innovax Sdn. Bhd., representing 100% of its issued and paid-up share capital, by CCMB to CCMD for a disposal consideration of RM1,000;
- (iii) 3,300,000 ordinary shares of RM1.00 each in CCM Pharma Sdn. Bhd., representing 100% of its issued and paid-up share capital, by CCMB to Duopharma (M) Sdn. Bhd. ("DMSB") for a disposal consideration of RM34,942,000;

Statement on Corporate Governance

- (iv) 30,000,000 ordinary shares of RM1.00 each in UPHA Pharmaceutical Manufacturing (M) Sdn. Bhd., representing 100% of its issued and paid-up share capital, by CCMB to DMSB for a disposal consideration of RM78,365,000;
- (v) 1,600,000 ordinary shares of Singapore dollar 1.00 each in CCM Pharmaceuticals (S) Pte. Ltd., representing 100% of its issued and paid-up share capital, by CCM International Sdn. Bhd., a wholly-owned subsidiary of CCMB, to CCMD for a disposal consideration of RM2,417,000; and
- (vi) The entire enlarged issued and paid-up share capital of CCM International (Philippines) Inc. (“CCM Philippines”), including five (5) CCM Philippines shares held by five (5) directors of CCM Philippines for CCM Investments Ltd., by CCM Investments Ltd., a wholly-owned subsidiary of CCMB, to CCMD for a disposal consideration of RM1,000.

(c) Annual Report

The Directors believe that an important channel to reach shareholders and investors is through the Annual Report. Besides including comprehensive financial performance and information on business activities, the Group strives to improve the contents of the Annual Report in line with the developments in corporate governance practices.

The Company's Annual Report can be obtained by accessing the Company's website at www.ccberhad.com.

(d) Company's Website

The Company also maintains a website at www.ccberhad.com which can be accessed by shareholders to keep abreast with the Company's development. The Board ensures the timely release of financial results on quarterly basis to provide shareholders with an overview of the Company's performance and operations in addition to the various announcements or press releases made during the year which can also be obtained from Bursa Malaysia's website. The shareholders can also leave their queries/feedbacks on the Company's website.

(e) Announcement of Quarterly Results for the Financial Year Ended 31 December 2014

The Directors view the timely announcement of the quarterly financial results as vital to the dissemination of information to the shareholders' and investors' community. The Company has consistently announced its quarterly results before Bursa Malaysia's deadlines as indicated below:-

Announcement of Quarterly Results 2014	Date of Announcement
1st Quarter	27 May 2014
2nd Quarter	29 August 2014
3rd Quarter	27 November 2014
4th Quarter	26 February 2015

STATEMENT OF COMPLIANCE WITH THE PRINCIPLES AND RECOMMENDATIONS OF THE CODE

The Group has in all material respects complied with the principles and recommendations of the Malaysian Code of Corporate Governance 2012 (the “Code”) throughout the financial year ended 31 December 2014, save for Recommendation 3.5 on Non-Independent Chairman (Principle 3) which was explained earlier.

This statement is made in accordance with a resolution of the Board of Directors dated 18 March 2015.