

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 2016.

Composition of Audit and Compliance Committee and Meetings

The Audit and Compliance Committee comprises of four (4) members, all of whom are Non-Executive Directors.

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, were as follows:

Name of Directors and Status	No. of Meetings Attended
Khalid bin Sufat Chairman, Senior Independent Non-Executive Director	8/8
Datin Paduka Kartini binti Haji Abdul Manaf Member, Non-Independent Non-Executive Director	8/8
Tan Sri Siti Sa'diah binti Sh. Bakir Member, Independent Non-Executive Director	8/8
Datuk Nik Moustpha Bin Haji Nik Hassan Member, Independent Non-Executive Director (Appointed w.e.f. 9 September 2016)	1/1

Details on the Terms of Reference of the Audit and Compliance Committee are available on the Company's website.

SUMMARY OF WORK DONE DURING THE FINANCIAL YEAR

- (i) Reviewed and approved the Annual Internal Audit Plan to ensure adequate coverage of the Group's operations;
- (ii) Reviewed the budget and Key Performance Indicators of the Group Integrity and Assurance Department;
- (iii) Reviewed the scorecard and status report of internal audit activities of the Group, on a quarterly basis, to ensure that all planned activities were properly carried out;
- (iv) Deliberated on the internal audit reports prepared by the Group Internal Auditor, as well as the agreed Management's action plans and deadline for implementation. Where necessary, instructed additional actions to be taken by Management in addressing the audit issues;
- (v) Monitored the status of corrective actions taken by Management, on a quarterly basis, to ensure that all audit issues are adequately addressed within the agreed timeline;
- (vi) Deliberated on the special investigation reports prepared by the Group Internal Auditor, and provided feedback on the actions taken by the Management on the issues at hand. The progress of the significant cases was monitored until their closure;
- (vii) Held private meetings and discussions with the Group Internal Auditor on significant audit and internal control matters;
- (viii) Reviewed the external auditor's audit plan and engagement strategy for the financial year ended 31 December 2016, covering the audit focus area, which also include a review on the IT systems, audit materiality and methodology and internal control systems;
- (ix) Reviewed the external auditor's report for the financial year ended 31 December 2015, including matters relating to adjustments arising from the external audit review and adequacy of disclosures, prior to making recommendation to the Board for approval. Following the Group's decision to exit from the Fertilizers Business, matters relating to the accounting treatments on the non-operating business, namely the financial effects on adoption of MFRS 5 (*Non-Current Assets Held For Sale and Discontinued Operations*) was addressed. The matter was deliberated at length to ensure that the true and fair presentations and disclosures were made in the financial statements;
- (x) Deliberated on the observations highlighted by the external auditors, and the respective management action plans and status updates;

REPORT OF THE AUDIT AND COMPLIANCE COMMITTEE (Cont'd)

- (xi) Held private meetings and discussions with the external auditors to allow for discussions on matters of concern;
- (xii) Evaluated the performance and independence of the external auditors and made recommendations to the Board on their re-appointment and audit fees;
- (xiii) Reviewed the quarterly reports in respect of the results to ensure compliance to the Malaysian Financial Reporting Standard and regulatory requirements, and recommended to the Board for subsequent release to Bursa Malaysia;
- (xiv) Reviewed the draft announcements of the audited and unaudited financial statements to Bursa Malaysia, to ensure compliance with the regulatory requirements;
- (xv) 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;
- (xvi) Reviewed and recommended to the Board on dividends to be declared to the shareholders of the Company;
- (xvii) Ensured the recommended principles and best practices of the Malaysian Code on Corporate Governance are implemented throughout the Group;
- (xviii) Reviewed and recommended to the Board bad debts and fixed assets write-off;
- (xix) Reviewed and updated the Board on Whistle Blowing and Integrity Initiatives;
- (xx) Reviewed the Directors' Statement on Risk Management and Internal Control ("SORMIC") for inclusion in the 2016 Annual Report. The SORMIC was supported by the Annual Assurance Statement on Risk Management and Internal Controls, which were signed off by the Group Managing Director and the Chief Financial Officer; and
- (xxi) Monitored the status of legal actions taken by the Company on matters relating to debtors, sales tax and employee Industrial Relations.

STATEMENT ON INTERNAL AUDIT FUNCTION

The Group Integrity and Assurance Department, which conducted all internal audit assignments within the Group, supports the Audit and Compliance Committee by providing an independent, objective assurance and consulting services designed to add value and improve the company's operations.

The internal audit function's purpose, authority and responsibilities are stated in the Internal Audit Charter, which is approved by the Audit and Compliance Committee. The Charter also specified the positioning of the internal audit function that reports directly to the Audit and Compliance Committee, to promote independence and enable it to maintain objectivity to render unbiased judgements. The principal responsibility of the internal audit function 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.

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

Group Integrity and Assurance Department adopts the COSO Internal Control Framework in conducting the audit assignments, which covered 5 elements of internal controls, namely Control Environment, Risk Assessment, Control Activities, Information and Communication, and Monitoring. In 2016, the Group Integrity and Assurance Department had issued 44 audit reports on areas under review includes Sales, Procurement, Project Management, Human Resource, Engineering, Distribution, IT systems, Governance as well as operations at the regional offices.

The Internal Audit reports, which included issues and action plans, were presented to, and discussed with, the Management. Group Integrity and Assurance Department subsequently monitored the implementation of the agreed action plans to ensure satisfactory closure of audit issues. The reports together with follow-up action plans and implementation status were then submitted and presented to the Audit and Compliance Committee for their deliberation and subsequent approval.

In 2016, Group Integrity and Assurance Department together with the Group Risk Management Department conducted Risk and Internal Control Workshops throughout the Group to enhance the knowledge and understanding amongst the employees on the importance of managing risks by implementing the relevant controls.

The total expenditure incurred for Group Integrity and Assurance Department for the financial year ended 31 December 2016, which amongst others included departmental expenditures such as office running expenses, training expenses, travelling expenses, staff remuneration, etc. was approximately RM1.7 million.

STATEMENT ON GROUP INTEGRITY FUNCTION

In respect of integrity matters, the Group Integrity and Assurance Department reports to the Integrity Committee. The Integrity Committee is a sub-committee of the Audit and Compliance Committee and is chaired by Datuk Nik Moustpha bin Haji Nik Hassan (Independent Non-Executive Director), who took over the helm from Datin Paduka Kartini binti Haji Abdul Manaf (Non-Independent Non-Executive Director) on 9 September 2016.

During the year, 4 meetings were held. The members of the Integrity Committee and their attendance record for the financial year are as follows:

Name of Members	No. of Meetings Attended
Datuk Nik Moustpha bin Haji Nik Hassan Independent Non-Executive Director (Appointed w.e.f. 9 September 2016)	1/1
Leonard Ariff bin Abdul Shatar Group Managing Director	4/4
Nik Fazila binti Nik Mohamed Shihabuddin Group Chief Operating Officer cum Chief Financial Officer	4/4
Wan Aishah Idris binti Muhamad Idris Head of Group Integrity and Assurance/Group Internal Auditor	4/4
Ibrahim Hussin Salleh General Manager, Legal/Company Secretary	4/4
Datin Paduka Kartini binti Haji Abdul Manaf Non-Independent Non-Executive Director (Resigned w.e.f. 9 September 2016)	4/4

The Group Integrity and Assurance Department is responsible for, amongst others, conducting programmes to further inculcate and enhance integrity in the Group's culture, managing the CCM Whistleblowing hotline, enhancing business practices to further improve governance and confirming information/complaints received via the hotline.

The key events/activities in 2016 were as follows:

- (i) Integrity Champions Workshop was held in collaboration with the Malaysian Anti-Corruption Commission ("MACC") and Association of Certified Integrity Officer ("ACelO"), and a total of 3 Champions and 10 representatives have attended the workshop;
- (ii) Integrity Corner was launched in the Company's 2nd Quarter Townhall and reading materials have been obtained from MACC, National Key Result Area ("NKRA"), Institut Integriti Malaysia ("INTEGRITI") and Transparency International Malaysia ("TI") for the Integrity Corner;
- (iii) Second Phase of Integrity Pact briefings were held at Pharmaceuticals Division;
- (iv) Board of Director and Senior Management integrity training titled 'Corporate Liability Act: What's Next' was conducted in September 2016;
- (v) The Annual Integrity Day "Projek Kasih" conducted in collaboration with KL Krash Pad was held on 30 November 2016.