

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 2013.

COMPOSITION OF AUDIT AND COMPLIANCE COMMITTEE AND MEETINGS

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

A total of eleven (11) meetings of the Audit and Compliance Committee were held during the year. The status of directorship and attendance record of each of the members during the financial year are as follows:

Name of Directors and Status	No. of Meetings Attended
Khalid bin Sufat Chairman, Senior Independent Non-Executive Director	11/11
Datuk Karownikaran @ Karunakaran A/L Ramasamy Member, Independent Non-Executive Director	11/11
Datin Paduka Kartini binti Hj. Abdul Manaf Member, Non-Independent Non-Executive Director	11/11

TERMS OF REFERENCE

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

Membership

- (i) The Audit and Compliance Committee shall be appointed by the Board of Directors and shall consist of a minimum of three (3) Non-Executive Directors, a majority of whom are Independent;
- (ii) The Chairman of the Audit and Compliance Committee shall be approved by the Board and shall be an Independent Non-Executive Director;
- (iii) At least one member of the Committee:-
 - must be a member of the Malaysian Institute of Accountants (MIA); or
 - if not a member of MIA:
 - he must have at least three years of working experience; and
 - he must have passed the examination specified in Part I of the 1st Schedule of the Accountants Act 1967; or
 - he must be a member of one of the Association of Accountants specified in Part II of the 1st Schedule of the Accountants Act 1967; or
 - fulfils such other requirements as prescribed or approved by the Exchange.

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Meetings

- (i) Meetings shall be held no less than four (4) times a year;
- (ii) The quorum shall be two (2) members, who must be Independent Directors;
- (iii) The Group Managing Director, the Group Finance Director and the Group Chief Internal Auditor shall normally be invited to attend the meeting;
- (iv) Any other Board members and any other representatives as deemed necessary shall be invited to attend the meeting;
- (v) With regards to integrity matters, care should be taken to minimise the risk of any conflict of interest that might be seen to give rise to an unacceptable influence;
- (vi) The Committee shall meet with the external auditors, the internal auditors or both, in the absence of other directors or employees of the listed issuer at least twice a year or whenever deemed necessary; and
- (vii) The Secretary to the Committee shall be the Group Company Secretary.

Authority

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

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

RESPONSIBILITIES ON AUDIT MATTERS

- (i) To consider and recommend to the Board the nomination, appointment and termination of External Auditors, as well as the audit fee;
- (ii) To discuss with the external auditor before the audit commences, the nature and scope of the audit, and ensure co-ordination where more than one audit firm is involved;
- (iii) To review the quarterly and year-end financial statements of the Board, focusing particularly on:
 - any change in accounting policies and practices;
 - significant adjustments arising from the audit;
 - the going concern assumption; and
 - compliance with accounting standards and other legal requirements.
- (iv) To discuss problems and reservations arising from the interim and final audits, and any matter the external auditor may wish to discuss (in the absence of Management where necessary);
- (v) To review the External Auditor's Management letter and Management's response;
- (vi) To carry out the following, in relation to the internal audit function of the Group:
 - review and approve the annual audit plan;
 - review the adequacy of the scope, functions, competency and resources of internal audit functions and that it has the necessary authority to carry out its work;
 - review and endorse the audit charter which outlines the purpose, authority and responsibility of the Group Internal Audit;

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- review the internal audit plans and results of these activities and where necessary, ensure that appropriate actions are taken on the recommendations of these functions;
 - review the annual budget for Group Internal Audit;
 - review any appraisal on performance as well as competency of the Group Internal Audit functions;
 - approve any appointment or termination of senior staff members of the Group Internal Audit functions; and
 - take cognisance of resignations of staff/members of the Group Internal Audit function and provide the resigning staff/members an opportunity to submit his reasons for resigning.
- (vii) To review any related-party transactions that may arise within the Group;
- (viii) To review the major findings of internal investigations and Management's response; and
- (ix) To consider other matters as defined by the Board.

RESPONSIBILITIES ON INTEGRITY MATTERS

- (i) To review annually:
- (a) the Group's business ethics and integrity policy and to make recommendations to the Board thereon; and
 - (b) the Group's business ethics and integrity policies, processes and practices.
- (ii) To monitor the Group's compliance with existing legislations such as the Anti Corruption Act 1997, Competition Act 2010, Whistleblower Protection Act 2010, Witness Protection Act 2009, Personal Data Protection Act 2010;
- (iii) To ensure that the Group's communication and training programmes on ethics and business integrity are effective in reinforcing ethical values and good practice;
- (iv) To monitor the responses to the Group's whistleblowing line and other mechanisms used by staff to raise concerns, and to oversee actions following breaches of the ethics and business integrity policy or allegations of misconduct;
- (v) To review reports from the Group Integrity Office;
- (vi) To review the policies and practice of the Group in respect of business ethics and integrity in relation to the commencement of operations in any new country or territory in which the Group has not previously operated; and
- (vii) To review and recommend to the Board, compliance with particular best practice guidance or codes in relation to business ethics and integrity and compliance.

ACTIVITIES DURING THE FINANCIAL YEAR

- (i) Reviewed and approved the internal audit plan of the Group;
- (ii) Reviewed the scorecard and status report of internal audit activities of the Group for the year to ensure that all planned activities were properly carried out;
- (iii) Reviewed the internal audit and special investigation reports prepared by the Group Internal Auditor and monitored the status of corrective actions taken by the Management to ensure all audit issues are addressed;
- (iv) Reviewed the Management letters, reports and fees of the External Auditors;
- (v) Evaluated the performance of the External Auditors and made recommendations to the Board on their re-appointment and audit fees;

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- (vi) Reviewed the Group's financial performance, quarterly announcement to Bursa Malaysia, draft audited accounts and Annual Reports of the Group, prior to the submission to the Board for consideration and approval;
- (vii) Reviewed the related party transactions entered into by the Group and the disclosure of such transactions in the Annual Report and circular on recurrent related party transactions;
- (viii) Reviewed and recommended to the Board dividends to be declared to the shareholders of the Company;
- (ix) Reviewed the establishment and implementation of Corporate Integrity programme for the Group;
- (x) Ensured the recommended principles and best practices of the Malaysian Code on Corporate Governance are implemented throughout the Group;
- (xi) Reviewed and recommended to the Board the revision to the Limits of Authority for standardisation within the Group;
- (xii) Reviewed and provided guidance to Management in respect of the Letter of Demand against CCM Chemicals Sdn. Bhd. from Prostar Edge (Johor) Sdn. Bhd.; and
- (xiii) Considered, reviewed and recommended to the Board the related party transaction entered into by the Group with Permodalan Nasional Berhad on the proposed disposal of two contiguous parcels of land at Bukit Tunku and other documentation relating to the disposal as well as the disclosure of such transaction in the Circular to Shareholders.

STATEMENT ON INTERNAL AUDIT FUNCTION

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

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

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

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

The total expenditure incurred for Group Internal Audit for the financial year, which amongst others includes departmental expenditures such as office running expenses, training expenses, travelling expenses, staff remuneration, etc. is approximately RM892,000.00.