

Statement on Corporate Governance

The Malaysian Code on Corporate Governance (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 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 2011.

BOARD OF DIRECTORS

Board Responsibilities

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. 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. The Board has also established the authority limits for Management to manage the business of the Group.

The Directors are required to make declarations on any potential or actual conflict of interest in any transaction. Where issues involve conflict of interest, the interested Directors abstain from discussing or voting on the matter.

The Directors, collectively, have a wide range of relevant expertise and experience to enable them to discharge their responsibilities effectively. The wide spectrum of skills and experiences has given them an edge and an added strength in terms of leadership and management, thus ensuring that the Group is steered and guided by an accountable and competent Board.

The Board, together with the Audit and Compliance Committee and Risk Management Committee, review the internal control and risk management systems within the organisation in ensuring the custody and effective and efficient utilisation of Group assets.

The Board is chaired by a Non-Independent Non-Executive Chairman. On 1 January 2011, the Board appointed an Executive Director to assume the role of the Group Managing Director. Subsequently, on 1 August 2011, the Executive Director was re-designated to Group Managing Director.

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 separated and clearly defined. As part of good corporate governance, the Chairman is responsible for ensuring board effectiveness and conduct. He 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 the 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 Company's affairs.

The Group Managing Director is critical to the performance of the Group. The Group Managing Director provides the leadership and strategic vision of the Group. He oversees the day-to-day running of the business 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 Non-Executive Directors provide considerable depth of knowledge collectively gained from experiences in a variety of public and private companies and public service. The Independent Non-Executive Directors provide unbiased and independent views in ensuring that the strategies proposed by the Management are fully deliberated and examined, in the interest not only of the Group, but also of minority shareholders, employees and the business communities in which the Group conducts its business.

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.

Board Composition and Balance

The Group considers that 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 the Bursa Malaysia Listing Requirements).

In accordance with the requirements of the Code, Khalid bin Sufat has been appointed the Senior Independent Non-Executive Director to replace Dato' Kalsom binti Abdul Rahman who resigned from the Board with effect from 10 January 2011.

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 on 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 issues 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.

At the beginning of the financial year, the Company had eight (8) Directors on its Board of whom three (3) were Independent Directors.

There were changes to the Board membership during the year. To date, there are eight (8) Directors of whom three (3) are Independent. The composition of the Board was maintained so that not less than one-third (1/3) were independent directors at all times. A brief profile of each Director is presented on pages 32 to 39 of the Annual Report.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

Appointment

The Board has established a formal and transparent policy on the appointment and selection process of its members which is consistent with the Company's Articles of Association. The appointment and selection process adopted by the Board ensures that the Board comprised members with the appropriate skills, knowledge/experience and mindset to achieve the strategic direction of the Group.

The proposed appointment of a new member to the Board as well as the proposed re-appointment and re-election of Directors at the

Annual General Meeting are recommended by the Nomination and Remuneration Committee (NRC) to the Board for their approval.

New members of the Board undergo an in-house company training programme to familiarise themselves with the operations of the Group. This includes visits to the Group's businesses and sites and meetings with senior management as appropriate, to enable them to get a full understanding of the nature of the Group's businesses, current issues within the Group and the corporate strategies as well as the structure and management of the Group.

Re-election

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 Annual General Meeting 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 Annual General Meeting. Directors over seventy years of age are required to submit themselves for re-appointment annually in accordance with Section 129 (6) of the Companies Act, 1965.

Directors' Training

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 (MAP) as prescribed by Bursa Malaysia Listing Requirements.

The Directors are regularly informed of industry-specific conventions to enable them to understand the industries within which the Group operates. The Company has initiated its own comprehensive and formal training programme tailored to the needs of the Board of Directors. During the year, the Company has organised a seminar on "Competition Act and What it Means to CCM" for the Directors of the Group which was facilitated by industry expert as part of the Continuing Education Programme.

In addition to the in-house seminars, Directors are also encouraged to attend seminars and/or conferences organised by relevant regulatory authorities and professional bodies to further enhance their skills and knowledge as well as update themselves on new developments in the business environment. Newly appointed Directors also underwent programmes such as plant visits and briefings to familiarise themselves with each of the business divisions.

STRUCTURE AND PROCESS

Board Meetings

Board meetings are scheduled a year ahead in order to enable full attendance at Board meetings. A minimum of four (4) Board meetings are held during the year. Additional meetings are held as and when required.

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;
- Reports, advices and opinions of external consultants/advisors as had been sought for.

Statement on Corporate Governance cont'd

During the financial year, eleven (11) Board Meetings were held. Details of the Directors' meeting attendance during the financial year are as follows:-

Name of Directors and Status	No. of Meetings Attended
Tan Sri Dato' Sri Hamad Kama Piah bin Che Othman Chairman, Non-Independent Non-Executive Director	11/11
Amirul Feisal bin Wan Zahir Group Managing Director (redesignated as Group Managing Director w.e.f. 01/08/2011)	11/11
Dato' Azmi bin Mohd. Ali Non-Independent Non-Executive Director	11/11
Khalid bin Sufat Senior Independent Non-Executive Director	11/11
Dr. Leong Chik Weng Independent Non-Executive Director	11/11
Professor Dato' Ir. Dr. Zaini bin Ujang Non-Independent Non-Executive Director (appointed w.e.f. 10/01/2011)	10/11
Datuk Karownikaran @ Karunakaran A/L Ramasamy Independent Non-Executive Director (appointed w.e.f. 10/01/2011)	11/11
Datin Paduka Kartini binti Hj. Abdul Manaf Non-Independent Non-Executive Director (appointed w.e.f. 10/01/2011)	10/11
Tan Sri Ab. Rahman bin Omar Non-Independent Non-Executive Director (resigned w.e.f. 10/01/2011)	0/1
Dato' Kalsom binti Abdul Rahman Senior Independent Non-Executive Director (resigned w.e.f. 10/01/2011)	1/1
Dato' Mohd. Nizam bin Zainordin Non-Independent Non-Executive Director (resigned w.e.f. 10/01/2011)	1/1

RELATIONSHIP BETWEEN THE BOARD AND SENIOR MANAGEMENT

The Board maintains a close and transparent relationship with the Management. Many of the responsibilities of the Board are delegated to the Management. There is an adequate degree of independence and process in place to allow directors to meet and actively exchange views with the Management.

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 the Management. This will allow them to understand the operations better and make decisions in steering the Company towards a profitable business.

Quality/Supply of Information

Board papers are prepared for all agenda items to ensure relevant information is provided to assist decision making. The board papers are supplied in a timely fashion with information in a form and quality appropriate to enable the Directors to discharge their duties effectively.

The Chairman is primarily responsible for ensuring that sufficient information is provided to the Board members to assist them in their deliberation. He 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 the agenda for board meetings. In line with this, the Company has established a board paper rating process whereby all board papers tabled at Board Meetings will be rated based on contents and presentation to ensure sufficient information are provided to the Board members for them to make an informed decision.

Access to Information/Advice

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 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.

Board Committees

The Board of Directors delegates specific responsibilities to the Board Committees, namely the Nomination and Remuneration Committee, Audit and Compliance Committee, Risk Management Committee and Finance and Investment Committee.

All 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.

The terms of reference, composition and activities of the respective committees are stated in their respective reports.

DIRECTORS' REMUNERATION

The remuneration of Directors is determined at levels which enable the Company 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 level of remuneration reflects the experience and level of responsibilities undertaken by the particular Non-Executive Directors concerned.

Statement on Corporate Governance cont'd

The Nomination and Remuneration Committee is responsible for setting the policy framework and for making recommendations to the Board on all elements of the remuneration and other terms of employment of the Group Managing Director. The Group Managing Director abstains from the deliberations and voting decisions in

respect of his remuneration. All Non-Executive Directors are paid directors' remuneration for Board and Committee meetings. In addition, they are paid a meeting allowance for attendance at each Board and Committee meeting. The directors' fees are approved by the Company at the Annual General Meeting in accordance with the Articles of Association.

The aggregate remuneration of Directors categorised into appropriate components for the financial year ended 31 December 2011 is as follows:-

	Category of Director	
	Group Managing Director (RM)	Non-Executive Directors (RM)
Fees		411,976
Allowance	86,800	146,400
Salaries and Bonus	513,333	-
Other Emoluments	160,114	-
Benefits-in-Kind	7,200	-
Total	767,447	558,376

Range of Remuneration	Executive	Non-Executive
RM1-RM50,000	-	3
RM50,001 to RM100,000	-	7
RM250,000 to RM300,000	-	-
RM700,001 and above	1	-

ACCOUNTABILITY AND AUDIT

Financial Reporting

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 Directors are responsible for the preparation of financial statements that give a true and fair view of the state of affairs of the Group at the end of the financial year.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group to enable them to ensure that the financial statements comply with the Companies Act, 1965 and approved Accounting Standards in Malaysia. The Directors are also responsible for safeguarding the assets of the Group and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Audit and Compliance Committee

The details are shown in the accompanying report of the Audit and Compliance Committee on pages 56 to 59.

Internal Audit

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

The Audit and Compliance Committee reviews and approves the audit plan which identifies the scope of work for the year.

Internal Control

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.

The function of the Group Internal Audit Department on the systems of internal control 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.
- Conduct investigations on specific areas or issues as directed by Audit and Compliance Committee and the Management.

The Statement on Internal Control which is presented on pages 69 to 70 of the Annual Report is to provide an overview of the state of internal controls within the Group.

Risk Management Committee

The details are shown in the accompanying report of the Risk Management Committee on pages 60 to 61.

Risk Management

The Group's risk management function is performed by the Group Risk Management Department, which is separate from the Group Internal Audit Department. The Department reports the results of the risk management activities to the Risk Management Committee. The Department facilitates the risk management processes within the Group.

The broad objectives of Enterprise Risk Management (ERM) framework for the Group ensure oversight over the management of risks and identify significant risks that the Group is willing to accept. The objectives include promoting operational efficiencies, optimise use of capital and improve margins through managing cost of risk and reviewing business processes.

In enhancing the ERM framework, the Group has aligned its structure, processes and methodologies to the ISO 31000 guidelines on managing risks. This includes quantification of risks, review of CCM Risk Universe and adopting a KPI linked risk reporting. These processes and methodologies are being automated using an Enterprise Risk Management information system (RiSmart) within the Group for a more effective and timely management reporting.

The report on Risk Management on pages 62 to 64 of the Annual Report describes the structure and process of risk management in the Group.

Relationship with the External Auditors

The Group has always maintained a close, transparent and professional relationship with its External Auditors i.e. Messrs KPMG in seeking professional advice and ensuring compliance with the accounting standards in Malaysia as well as the auditors' professional requirements. Messrs KPMG has continued to report to shareholders of the Company on its opinion which is included as part of the Group's financial reports with respect to their audit on each year's statutory financial statements. The External Auditors also highlighted to the Audit and Compliance Committee and Board of Directors on matters that require their attention. The Audit and Compliance Committee held two meetings with the External Auditors without the presence of the management during the financial year under review.

Whistle-Blowing Policy

As part of best practices in good corporate governance, the Group has established a "Whistle-Blowing" policy. This policy is to encourage employees to report any major concerns over

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 any such concern 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.

Shareholders

The Group is committed to providing sufficient information to shareholders to allow them to effectively evaluate the performance of the Company.

The Annual General Meeting (AGM) provides a forum for dialogue with 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. Extraordinary General Meetings (EGM) will be held as and when required.

In addition, a press conference is normally held after the AGM at which members of the press are encouraged to ask the Group Managing Director questions on a range of topics relevant to the Group.

Other avenues whereby shareholders have access to company data are through quarterly filing of financial data and the Company's website at www.ccm.com.my. The full financial

results and the Company's announcements/press releases can also be obtained from Bursa Malaysia's website.

Investor Relations

The Group also holds briefings/dialogues with institutional investors, fund managers, analysts and research houses. Analysts and investors are briefed as required, in relation to major corporate exercises and pertinent issues within the disclosure requirements of Bursa Malaysia.

While the Group endeavours to provide as much information as possible to its shareholders and stakeholders, it must also be wary of the legal and regulatory framework governing the release of material and price sensitive information. All corporate disclosures take into account the prevailing legislative restrictions and requirements as well as the investors need for timely release of price sensitive information such as financial performance results and statements, material acquisitions, significant corporate proposals as well as other significant corporate events.

In all circumstances, the Group is cautious not to provide undisclosed material information about the Group and continually stresses on the importance of timely and equal dissemination of information to shareholders and stakeholders.

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.ccm.com.my.

Announcement of Quarterly Results for the Financial Year Ended 31 December 2011

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 2011	Date of Announcement
1st Quarter	27 May 2011
2nd Quarter	19 August 2011
3rd Quarter	22 November 2011
4th Quarter	29 February 2012

Continuing Disclosure of Material Information

The Group has long observed the continuing disclosure obligation imposed upon a listed issuer by Bursa Malaysia. The Group has consistently adopted and applied the principles

of best practices in Corporate Disclosure Policy and Procedures as laid down by Bursa Malaysia.

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

Date of Announcement	Subject Matter of Material Information
11 February 2011	Originating Summons No.: D24NCC-245-2010 on Chemical Company of Malaysia Berhad by AKN Technology Berhad (AKN) in Kuala Lumpur High Court (Commercial Division) – Settlement and Discontinuance of the aforesaid litigation case.
27 May 2011	Proposed Bridging Loan Comprising a Revolving Credit Facility of up to RM120 million from MIDF Amanah Investment Berhad to part finance up to RM120 million of the Group's upcoming RM150 million Finance Service Reserve Account commitment in respect of its existing RM500 million Musyarakah Commercial Papers/Medium Term Notes Programme and/or to supplement the CCM's working capital requirements.
3 August 2011	Proposed Issuance of Sukuk Musyarakah of up to RM120 million in Nominal Value, to be established under the Shariah Principle of Musyarakah by Chemical Company of Malaysia Berhad.
30 November 2011	Proposed Issuance of Musyarakah Commercial Papers (MCP) and Musyarakah Medium Term Notes (MMTN) pursuant to a MCP Programme of up to RM250 million in nominal value (MCP Programme) and a MMTN Programme of up to RM500 million in nominal value (MMTN Programme), respectively to be established under the Shariah Principle of Musyarakah (Programmes) with a combined master limit of RM500 million in nominal value - Redemption of Initial Issuance of the MMTN with a nominal value of RM150 Million.
29 December 2011	Proposed Internal Restructuring to Streamline, Realign and Promote Synergy within the Innovative Group.

Directors' Responsibilities in relation to the preparation of the Audited Financial Statements

The Directors are required by the Companies Act, 1965 to prepare financial statements which are in accordance with applicable approved accounting standards and give a true and fair view of the state of affairs of the Group and the Company at the end of the financial period and of the results and cash flow of the Group and the Company for the financial period.

In preparing the financial statements, the Directors have:-

- Adopted suitable accounting policies and applied them consistently;
- Made judgments and estimates that are prudent and reasonable;

- Ensured that applicable accounting standards have been followed; and
- Prepared the financial statements on a going concern basis.

The Directors have prepared the annual financial statements in compliance with Companies Act, 1965.

STATEMENT OF COMPLIANCE WITH THE BEST PRACTICES OF THE CODE

The Group has in all material respects complied with the Code of Corporate Governance throughout the financial year ended 31 December 2011. This statement is made in accordance with a resolution of the Board of Directors dated 29 February 2012.