

# Statement on Corporate Governance

## The Code

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 Group towards enhancing corporate accountability with the objective of realising long-term shareholder value, whilst taking into account the interest of other stakeholders.

The Board of Directors is committed to ensure that good corporate governance is being practised throughout the Group, as it is a fundamental part of discharging its responsibilities to enhance shareholders' value and financial performance of the Group.

The following statement sets out how the Company has applied the principles and best practices of corporate governance as contained in the Malaysian Code of Corporate Governance throughout the financial year from 1 January 2009 to 31 December 2009.

## The Board of Directors

As at 31 December 2009, the Board consists of six (6) directors of whom three (3) are independent. However, due to the resignation of Dr. Mohd Nasir bin Hassan on 4 February 2010, the current composition of the Board stands at five (5) of whom two (2) are independent. The composition of the Board was maintained so that not less than one-third (1/3) were independent directors at all times. 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 Company's strategies so as to ensure that the highest standards of conduct and integrity are maintained.

The Directors with their different backgrounds and specialisations, collectively bring with them a wide range of experience and expertise to enable the Board to lead and control the Group effectively. A brief description on the background of the Directors is presented in the Board of Directors' Profile section of this Annual Report.

There is a clear division of responsibility between the Chairman and the Chief Executive Officer to ensure a balance of power and authority. The Chairman is primarily responsible for ensuring Board effectiveness and conduct whilst the Chief Executive Officer oversees the day-to-day running of the businesses including implementation of the policies and strategies adopted by the Board and clarifying matters relating to the Group's business to the Board.

The Board has met four (4) times during the financial year under review. It is envisaged that the Board will convene additional meetings as necessary. All Board members bring an independent judgment to bear on issues of strategy, performance, resources, and standard of conduct.

The Board reviews and approves the short term budgets and long term strategies in line with the overall strategy of its major shareholders. In addition, all acquisitions, disposals and major capital expenditure are approved by the Board. At appropriate times, the Board also considers the principal risks affecting the business of the Group and the measures that could be taken to mitigate such risks.

The Board, in discharging its fiduciary duties, is assisted by two (2) Board Committees namely the Audit and Risk Management Committee and the Nomination and Remuneration Committee, each entrusted with specific tasks.

These Committees have the authority to examine particular issues and report back to the Board with their recommendations. The ultimate responsibility for the final decision on all matters, however, lies with the entire Board.

All Committees have written terms of reference which have been approved by the Board, and the Board receives report of their proceedings and deliberations. The Chairman of the various committees will report to the Board on the outcome of the Committee meetings and such reports will be incorporated in the minutes of the Board Meeting.

### Meetings and Supply of Information

Board Meetings are scheduled a year ahead in order to enable full attendance at Board meetings. During the financial year under review, the Board deliberated upon and considered a variety of matters including the Group's financial results, strategic plan and business plan of the Group in the meetings held. During the year, four (4) 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' Dr. Abu Bakar bin Suleiman <b>Chairman, Non-Independent Non-Executive Director</b>	4/4
Dato' Dr. Mohamad Hashim bin Ahmad Tajudin <b>Non-Independent Non-Executive Director</b>	4/4
Datuk Alias bin Ali <b>Non-Independent Non-Executive Director</b>	3/4
Datuk Dr. Jegathesan a/l N.M. Vasagam @ Manikavasagam <b>Independent Non-Executive Director</b>	3/4
Haji Ghazali bin Awang <b>Independent Non-Executive Director</b>	3/4
Dr. Mohd. Nasir bin Hassan <b>Independent Non-Executive Director</b> (Resigned w.e.f. 4 February 2010)	3/4

Scheduled Board meetings are structured with a pre-set agenda. Prior to the Board meetings, all Directors are provided with the board papers in a timely manner with information in a form and of a quality appropriate to enable them to discharge their duties.

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. All directors, whether as a Board or in their individual capacity have full access to information within the Group and to obtain independent professional advice in

furtherance of their duties at the Group's expense, if required. In addition, all Directors have access to the advice and services of the Company Secretary.

The Directors are also constantly updated on the latest development in the legislations as well as on statutory and regulatory requirements pertaining to their duties and responsibilities. They are also notified of any disclosure/ announcements made to Bursa Malaysia and where required, senior members of the Management are invited to attend and make presentations at each Board meeting.

### Audit and Risk Management Committee

The Audit and Risk Management Committee reviews issues of accounting policy and presentation of external financial reporting, monitors the work of the internal audit function and ensures that an objective and professional relationship is maintained with the external auditors. In addition, the Audit and Risk Management Committee also reviews the risk management programme of the Group and provides proper guidance and direction in facilitating the risk functions within the Group to enhance the corporate governance standard and safeguard all stakeholders' interest. The Audit and Risk Management Committee works closely with the internal auditor, the group risk management officer and external auditors who, in turn, have access to the Chairman of the Audit and Risk Management Committee.

The Composition and terms of reference of the Audit and Risk Management Committee are set out in the Audit and Risk Management Committee Report.

### Nomination and Remuneration Committee

The Nomination Committee and Remuneration Committee, both established on 15 July 2002 were merged as a single committee by the Board on 30 March 2006. The Nomination and Remuneration Committee consists of Non-Executive Directors. The composition and the terms of reference of the Nomination and Remuneration Committee are set out in the Nomination and Remuneration Committee Report.

## Appointment and Re-Election of Directors

### Appointment

There is a formal and transparent procedure for the appointment of new members to the Board as well as re-election of Directors to the Board at the Annual General Meeting, with the Board Nomination and Remuneration Committee making recommendations to the Board. Following the appointment of new Directors to the Board, an induction programme including visits to the Group's businesses and meetings with senior management as appropriate will be arranged to familiarise themselves with the operations 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 mandates. 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. To assist shareholders in their decision, sufficient information such as personal profile, meeting attendance and the shareholdings in the Group of each Director standing for re-election are furnished in a separate statement accompanying the Notice of Annual General Meeting.

### Directors' Training

All Directors have attended and successfully completed the Mandatory Accreditation Programme (MAP) as prescribed by Bursa Malaysia Listing Requirement.

The Directors also continually attend education programmes and seminars to further enhance their skill and knowledge and to keep abreast with developments in the market place. As part of the Directors development programme, the Group participates in the CCM Group's own comprehensive and formal training programmes tailored to the needs of the Board. For the financial year ended 31 December 2009, an in-house training programme entitled "Malaysia - The Global Halal Hub" was conducted and facilitated by industry experts. In addition to the in-house seminars, Directors are also encouraged to attend talks, training programmes and seminars to update themselves on new developments in the business environment.

The Board has assessed and considered the training programmes attended by them and deemed that the trainings were appropriate and sufficient.

### Directors' Remuneration

The objective of the Group's policy on Directors' remuneration is to ensure that the Group attracts and retains Directors of the calibre needed to run the Group successfully. In the case of Executive Directors, the component parts of remuneration are structured so as to link rewards to corporate and individual performance. The Nomination and Remuneration Committee will make recommendations to the Board on all elements of executive directors' remuneration, if any. In the case of Non-Executive Directors, the level of remuneration reflects the level of responsibilities and the market practice to which the remuneration is pegged. The shareholders at the annual general meeting approve the aggregate annual Directors' fees for Non-Executive Directors while the Board decides the determination of the fees for each Non-Executive Directors.

Details of Directors' remuneration paid by the Company for the financial year ended 31 December 2009 are as follows:-

Non-Executive Directors	RM'000
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Fees	250
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The number of Directors of the Company whose remuneration fall within the respective bands are as follows:-

Range of Remuneration	No. of Directors Non-Executive
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Below RM50,000	5
RM50,001 to RM100,000	1
RM600,000 to RM650,000	-
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### Investor Relations and Shareholders Communication

The Board recognises the importance of maintaining effective communication, ensuring timely and accurate disclosure of information to the shareholders and investors of the Group. Besides the information communicated through the annual report, various announcements on significant events are made throughout the year and quarterly financial results are announced via Bursa Malaysia Securities Berhad's website ([www.bursamalaysia.com](http://www.bursamalaysia.com)) to ensure shareholders are appraised with up-to-date overview of the Group's performance and operations.

#### General Meetings

The Annual General Meeting ("AGM") is the principal forum for dialogue and interaction with shareholders of the Group. Notice of the AGM and annual reports are sent out to the shareholders at least 21 days before the date of the meeting. At each AGM, the Board presents the progress and performance of the business and encourages shareholders to participate in the question and answer session or to seek clarification on the Company's performance and business climate. All members of the Board as well as the external auditors of the Group and Management are available to respond to shareholders' queries raised at the meeting.

Extraordinary General Meeting ("EGM") are 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 Chairman and Chief Executive Officer questions on a range of topics relevant to the Group.

#### Investor Relations

Continuous briefing for members of the media, fund managers, institutional investors and investment analysts are held to provide updates on key events and latest developments of the Group. The Group's corporate website, [www.duopharma.com.my](http://www.duopharma.com.my), provides an avenue for dissemination of up-to-date information such as corporate information, financial information, press releases, share price history and other relevant news on the Group.

### 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 the 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 Group's website at [www.duopharma.com.my](http://www.duopharma.com.my).

### Announcement of Quarterly Results for the Financial Year Ended 31 December 2009

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 Group has consistently announced its quarterly results before the Bursa Malaysia's deadlines as indicated below:

Announcement of Quarterly Results 2009	Date of Announcement
1st Quarter	26 May 2009
2nd Quarter	26 August 2009
3rd Quarter	20 November 2009
4th Quarter	23 February 2010

### Continuing Disclosure of Material Information

The Group has long observed the continuing disclosure obligation imposed upon a listed issuer by Bursa Malaysia. The Company 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 Bursa Malaysia on a timely basis:

- (i) News Release on the investment of RM75 million for a three year plant expansion from 2008 to 2010 as part of the Group's growth strategies;
- (ii) Proposed disposal of vacant freehold industrial land of Lot No. 2555 and Lot No. 2556, Mukim and District of Klang, State of Selangor to Himpun Menang Sdn Bhd for a total purchase consideration of RM8,131,149.90.

## 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 Statement of Directors' responsibility for preparing the financial statements is set out on page 54 of this Annual Report.

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 prevention and detection of fraud and other irregularities.

### Audit and Risk Management Committee

The details are shown in the accompanying report of the Audit and Risk Management Committee on pages 39 to 41.

### Internal Audit

The Group's internal audit function is performed in-house by the CCM Group Internal Audit Division that reports direct to the Audit and Risk Management Committee.

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

### Internal Control

The Statement on Internal Control on page 47 of the Annual report describes the structure and process of risk management in the Group.

### Risk Management

The Group's risk management function is performed by the Group Risk Management Department which is separate from the Group Internal Audit Division. The Department reports direct to the Audit and Risk Management Committee. The report on Risk Management on pages 44 to 46 of the Annual Report describes the structure and process of risk management in the Group.

### Whistle-Blowing Policy

As part of best practices in good corporate governance, the Group has adopted CCM Group's "Whistle-Blowing" policy.

This policy is to encourage employees to report any major concerns over any wrongdoing within the Group relating to unlawful conducts, financial malpractices 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.

### Statement on Internal Control

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

The function of the Internal Audit Division on the systems of internal control is to assist the Audit and Risk Management 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 Risk Management Committee and the Management;
- Evaluate the risk management processes.

The Statement on Internal Control which is presented on page 47 of the Annual Report is to provide an overview of the statement of internal control within the Company.

### Relationship with the Auditors

The Group has established and maintained a professional and transparent relationship with the Group's external auditors, Messrs KPMG in seeking professional advice and ensuring compliance with the accounting standards in Malaysia as well as meeting the

#### Relationship with the Auditors (cont.)

auditors professional requirements. The external auditors, Messrs KPMG has continued to report to the shareholders of the Group 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 auditors also highlight to the Audit and Risk Management Committee and the Board on matters that require the Board's attention. Two (2) meetings were held between the External Auditors and the Audit and Risk Management Committee without the presence of the management during the financial year under review.

#### 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 at the end of the financial period and of the results and cash flows of the Group 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 the Companies Act, 1965.

#### Compliance Statement

The Group has complied throughout the financial year with all the best practices of corporate governance set out in Part 2 of the Code, except Best Practice AAVII (Nomination of a Senior Independent Non-Executive Director). Given the current composition of the Board which reflects a strong independent element and the separation of the roles of the Chairman and the Chief Executive Officer, the Board does not consider it necessary at this juncture to nominate a Senior Independent Non-Executive Director.

#### Other Information

##### 1. Non-Audit Fees

During the financial year ended 31 December 2009, the non-audit fees paid to the external auditors or a firm or a company affiliated to the Auditor's firm amounted to approximately RM9,000.

##### 2. Material Contracts

There were no contracts entered into by the Group involving Directors or major shareholders' interest, either subsisting at the end of the financial year ended 31 December 2009 or entered into since the end of the previous financial year.

##### 3. Revaluation policy

The Group adopted a policy to revalue its landed properties every five years and at shorter intervals whenever the fair value of the re-valued assets is expected to differ materially from their carrying amount.

##### 4. Share Buy-back

There was no share buy-back effected during the financial period ended 31 December 2009.

##### 5. Employees' Share Option Scheme ("ESOS")

The ESOS of the Group was approved by the shareholders on 25 June 2004.

On 26 January 2005, the Group granted options to eligible employees of the Group to subscribe for a total of 7,938,000 ordinary shares of RM0.50 each in the Group at an option price of RM2.32 per share of RM0.50 each. To date, a total of 7,479,500 options have been exercised.

The ESOS expired on 24 June 2009.

The Audit and Risk Management Committee has verified that the options granted were made in accordance with the By-laws of the ESOS.

##### 6. Options, Warrants or Convertible Securities

There were no options, warrants or convertible securities issued by the Group during the financial period ended 31 December 2009.

Other Information (cont.)

**7. American Depository Receipt (“ADR”) or Global Depository Receipt (“GDR”) Programme**

During the financial period ended 31 December 2009, the Company did not sponsor any ADR or GDR programme.

**8. Imposition of Sanctions/Penalties**

There were no sanctions and/or penalties imposed on the Group and its subsidiary, directors or management by the relevant authorities.

**9. Profit Guarantees**

There were no profit guarantees during the financial period ended 31 December 2009 by the Group.

**10. Contract Relating to Loans**

There were no contracts relating to loans by the Group involving Directors’ and major shareholders’ interests.

**11. Recurrent Related Party Transaction of Revenue or Trading Nature**

At an Annual General Meeting (“AGM”) held on 26 May 2009, the Company obtained a shareholders’ mandate to allow the Group to enter into recurrent related party transactions of a revenue or trading nature which are necessary for its day-to-day operations and are in the ordinary course of business with related parties. The said general mandate took effect from 26 May 2009 until the conclusion of the forthcoming Annual General Meeting of the Group. The disclosure of the recurrent related party transactions conducted during the financial period ended 31 December 2009 is set out on pages 89 to 90 of the Annual Report.

The Group intends to seek a renewal of the said general mandate and a proposed extension of the scope of the shareholders mandate to apply to recurrent related party transactions of a revenue or trading nature with new related parties at the forthcoming Annual General Meeting of the Group. The details of the new mandate to be sought are furnished in the Circular to Shareholders dated 3 May 2010.

# Report of the Audit and Risk Management Committee

## Composition of Audit and Risk Management Committee and Meetings

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

A total of six (6) meetings were held during the year. The status of directorship and attendance record of each of the members during the year are as follows:

Name of Directors and Status	No. of Meetings Attended
Haji Ghazali bin Awang <b>Chairman, Independent Non-Executive Director</b>	5/6
Datuk Alias bin Ali <b>Non-Independent Non-Executive Director</b>	6/6
Datuk Dr. Jegathesan a/l N.M. Vasagam @ Manikavasagam <b>Independent Non-Executive Director</b>	4/6
Dr. Mohd. Nasir bin Hassan <b>Independent Non-Executive Director</b> (Resigned w.e.f. 4 February 2010)	6/6

## Terms of Reference

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

### Membership

- The Audit and Risk Management Committee shall be appointed by the Board of Directors and shall all consist of Non-Executive Directors, a majority of whom are independent.
- The Chairman of the Audit and Risk Management Committee shall be approved by the Board and shall be an Independent Non-Executive Director.

- 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 Associations of Accountants specified in Part II of the 1st Schedule of the Accountants Act 1967.
  - fulfils such other requirements as prescribed or approved by the Exchange.

### Meetings

- Meetings shall be held no less than four (4) times a year.
- The quorum shall be two (2) members who must be Independent Directors.
- The Financial Controller, the Group Chief Internal Auditor and the Group Risk Management Officer shall normally be invited to attend the meeting.
- Any other Board members, the Chief Executive Officer and any other representatives as deemed necessary shall be invited to attend the meeting.
- The Committee shall meet with the external auditors, internal auditors or both, in the absence of other directors and employees of the listed issuer at least twice a year.
- The Secretary to the Committee shall be the Company Secretary.

### Authority

The Audit and Risk Management Committee is authorised by the Board:-

- to seek any information relevant to its activities from employees of the Company.
- the necessary resources required to carry out its duties and to obtain independent professional advice it considers necessary.

Authority (cont.)

- iii. full and unlimited access to any information and documents pertaining to the Company.

**Responsibilities**

- i. To consider and recommend to the Board on 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 review the internal audit and risk management reports and where necessary, ensure that appropriate actions are taken on the recommendations of the internal audit and risk management function;
- vii. To do the following, in relation to the internal audit functions:
  - a. Review the adequacy of the scope, functions, competency and resources of the internal audit and risk management functions and that they have the necessary authority to carry out its work;
  - b. Review the internal audit and risk management plans and results of these activities and where necessary, ensure that appropriate actions are taken on the recommendations of these functions;

- c. Review any appraisal or assessment of the performance of members of the internal audit and risk management functions;
- d. Approve any appointment or termination of senior staff members of the internal audit and risk management functions;
- e. Take cognisance of resignations of internal audit and risk management staff members and provide the resigning staff member an opportunity to submit reasons for resigning.
- viii. To consider any related-party transactions that may arise within the Group;
- ix. To consider the major findings of internal investigations and management's response; and
- x. To consider other topics as defined by the Board.

**Activities during the year**

- i. Reviewed and approved the Company's internal audit and risk management plan for the year.
- ii. Reviewed the status report of internal audit and risk management activities for the year to ensure that all the planned activities for the Company were properly carried out.
- iii. Reviewed the summary of the internal audit and risk assessment reports prepared by Group Internal Auditor and Group Risk Management Officers and monitor the status of corrective actions taken by the Management to ensure all audit and risk management issues and concerns are adequately resolved on timely basis.
- iv. Reviewed the Company's Risk Profile and the management process for identifying, evaluating and managing the significant risks faced by the Company.
- v. Reviewed the management letters, reports and fees of the external auditors.
- vi. Evaluated the performance of the external auditors and made recommendations to the Board on their re-appointment and audit fees.

Activities during the year (cont.)

- vii. Reviewed the quarterly and annual reports of the Company prior to the submission to the Board for consideration and approval.
- viii. Reviewed the related party transactions entered into by the Company and the disclosure of such transactions in the annual report and circular on recurrent related party transactions.

#### **Statement on Internal Audit Function**

The Company has an in-house internal audit function which is performed at the Group level. The Group Internal Audit has undertaken regular and systematic risk based assessments of the internal control of the Company so as to provide reasonable assurance that such systems are adequate and continue to operate effectively in managing the key risks of the Company.

The total expenditure incurred for Group Internal Audit function for the financial year, which amongst others includes departmental expenditures such as office running expenses, training expenses, travelling expenses, staff remuneration, etc. is estimated at RM262,500.00.

#### **Activities during the year**

The Group Internal Auditor had conducted various operational audits as well as follow up audit exercises for the Company in accordance with the Audit and Risk Management Committee's approved Audit Plan for 2009. Among the areas covered were the operations of Production Planning, Sterile and Non-Sterile Production, Finance Department, Quality Assurance, Quality Control, Ethical and Over The Counter (OTC) Sales, Human Resources and Recurrent Related Party Transactions.

#### **Statement on Risk Management Function**

The Company has an in-house risk management function which is performed at the Group level. The key risks which are identified through the risk management process are reported to the Risk Management Committee and also the Audit and Risk Management Committee of the Board. This enables the Audit and Risk Management Committee to focus on the key risks inherent in the Company's business and operations and the system of internal control necessary to manage such risks.

#### **Activities during the year**

The Group Risk Management function has conducted various operational, strategic and related assignments in accordance with the Audit and Risk Management Committee's approved Risk Management Programme for 2009. These include the review and update of the Company's key risk profile, New Warehouse Project Implementation as well as assignments done on CCM Group-wide basis like Competency Gaps and Advertisement & Promotion issues for OTC Products.

# Report of the Nomination and Remuneration Committee

The Board is pleased to issue the following report on the Nomination and Remuneration Committee and its activities during the financial year ended 31 December 2009.

## Terms of Reference

The terms of reference of the Committee are as follows:-

- i. To recommend to the Board, candidates for all directorships. In making the recommendations the Committee should also consider candidates proposed by Chief Executive Officer/ Managing Director, and within the bounds of practicability, by any other senior executive, Director or shareholder;
- ii. To recommend to the Board, Directors to fill the seats on Board Committees;
- iii. To review and assess annually the required mix of skills, and experience of the Board, including the core competencies which Non-Executive Directors should bring to the Board to ensure that there is an appropriate balance of skills, experience and expertise among the Board members;
- iv. To assess annually the effectiveness of the Board as a whole, the Committees of the Board and the contribution of each individual Director;
- v. To evaluate the candidates' ability to discharge such responsibilities/functions as expected from Non-Executive Directors, in case of candidates for position of Independent Non-Executive Directors;
- vi. To establish a remuneration framework for Directors and make recommendations to the Board of Directors on all elements of remuneration, terms of employment, reward structure and fringe benefits for Directors so that it is in line with market and industry practice and is reflective of the contribution of each individual Director;
- vii. To recommend to the Board the remuneration of the Executive Directors or Chief Executive Officer in all its forms;
- viii. To make recommendations to the Board with regards to appointment of new Directors or Directors who are retiring by rotation and should be put forward for re-election. The Nomination and Remuneration Committee had assisted the Board in carrying out an annual review on the balance and size of Non-executive participation in the Board as well as establishing procedures and processes for the annual assessment of the effectiveness of the Board as a whole and the contributions of each Director and Board Committee member;
- ix. To provide adequate training and orientation to new Directors as well as continuous training to current directors with respect to business, structure and management of the Group as well as the expectations of the Board;
- x. To ensure an appropriate framework and plan for Board and management succession in the Company;
- xi. To review and approve/ratify the annual global increment and bonus package for non-unionised employees of the Company;
- xii. To review and recommend the Board on any new Employees' Share Options Scheme of the Company and/or amendments to the existing scheme.

## Members And Meetings

The present members of the Nomination and Remuneration Committee comprise:-

Name of Directors and Status	No. of Meetings Attended
Tan Sri Dato' Dr. Abu Bakar bin Suleiman <b>Chairman, Non-Independent Non-Executive Director</b>	3/3
Datuk Dr. Jegathesan a/l N.M. Vasagam @ Manikavasagam <b>Member, Independent Non-Executive Director</b>	3/3
Haji Ghazali bin Awang <b>Member, Independent Non-Executive Director</b>	3/3

### Activities during the Year

During the year, the Committee:

- i. conducted the Board's Effectiveness Assessment and recommended improvement plans for the same.
- ii. reviewed the Directors' remuneration for the Company and recommend the same for Board's consideration and shareholders' approval at the Annual General Meeting of the Company;
- iii. reviewed and approved the annual global increment and bonus package for non-unionised employees of the Company;
- iv. ensured that all Directors received appropriate continuous training programmes in order to keep abreast with developments in the financial industry and changes in the relevant statutory requirements;
- v. reviewed and monitored the succession planning in the Company.

## Report on Risk Management

Risk is inherent in all businesses and the effective management of risk is a core competence within the Company. CCM Duopharma Biotech Berhad relies on the risk management structure of the Group to proactively and efficiently manage the Company's major and key risks. A formal Enterprise-wide Risk Management (EWRM) Framework was established and it forms an integral part of the Company's corporate governance structure and a key management tool. The Group Risk Management Department ("GRMD") provides the main support to the Risk Management Committee ("the Committee"), chaired by the Chief Executive Officer and comprises Senior Management staff of the Company.

The Company adopts a systematic, structured and disciplined approach to risk management through an integrated EWRM Programme. A good EWRM framework advocates a holistic, robust, integrated, focused and process-oriented approach is implemented to assist the Company to manage all key businesses and opportunities with the intent of optimizing and creation of stakeholders' values for the Company.

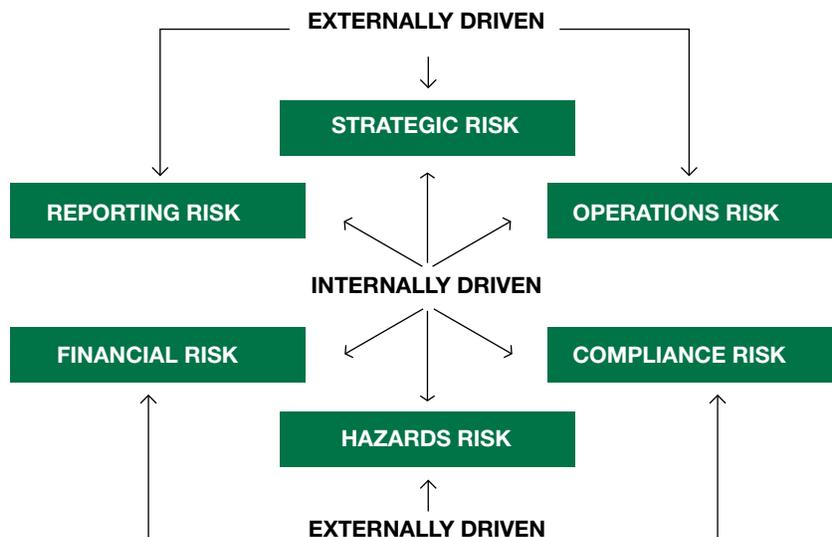
The underlying principal of EWRM is for the risk functions to operate as an independent control working in partnership with the business units to provide competitive advantage to the Company. This is also to establish a common risk management language that includes common measures around likelihood, impact and common risk categories.

The risks facing the Company in its businesses and operations can result from internal and external factors, hence the context within which the Company manages the risks and key focus of accountability as depicted in the diagram.

The Company recognises the broad spectrum of risks which it faces along with the opportunities which it seeks in its businesses and operations. It is hence, the Company's objective to maintain an effective risk management programme to assess and mitigate these risks and thereby facilitate the Company in meeting all its business objectives, most specifically:-

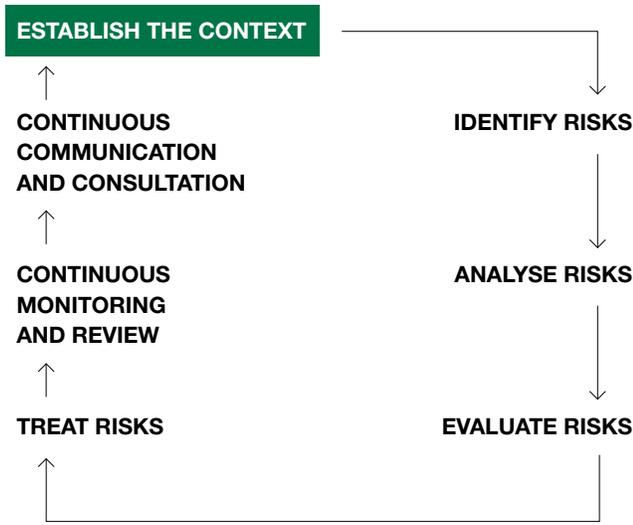
- To enhance the Company's high standards of corporate governance;
- To safeguard shareholders' investment;
- To safeguard the Company's assets;
- To develop the Company's employees and promote their well-being; and
- To facilitate the Company's long-term growth under all business conditions.

The Company's Annual Risk Management Programme is approved by the Audit and Risk Management Committee. The GRMD facilitates the conduct of risk management activities outlined in the Programme which include updating of risk profiles; risk assessment associated with project management and risk analysis of business or operational initiatives/issues emerging in the Company.



**Risk Management Process**

The Company’s risk management processes involve establishing the context of risk in relation to the Company and thereon risk identification, analysis, evaluation and treatment. Throughout this process, there is continuous monitoring and review; and communication and consultation. The process is illustrated as follows:-



**Risk Analysis and Mitigation**

The identified risks are analysed according to their likelihood of occurrence and significance of their consequences. Based on the risk analyses and subsequent evaluation for treatment priority, the appropriate risk mitigation strategies are devised to treat the risks accordingly. The following illustrates risk profiles in general and describes generally the respective risk mitigation strategies of the Group.

**Risk A**

The risk must be managed by senior management with a detailed action plan or significant senior management attention is required. Extensive management of the risk is essential with focus on both reducing the likelihood of the risk and mitigating its consequence. Guidance from Board of Directors may be required where appropriate.

**Risk B**

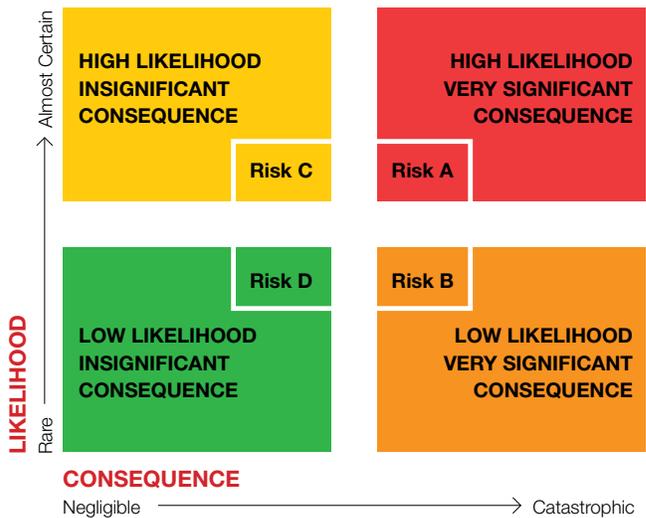
Considerable management attention is required including specifying management responsibility. Given the significant consequences of the risk, preventive control measures must be maintained effectively with regular assessment thereof in order to maintain the likelihood of the risk occurring at a low level. Ideally, contingency measures should also be maintained to mitigate the consequence of the risk should it eventuate.

**Risk C**

While the consequence of the risk is insignificant, its high likelihood of occurrence should be reduced. Management should monitor the risk; identify its root causes; and design and implement corrective measures to reduce its likelihood of occurrence.

**Risk D**

The risk may be managed by routine procedures or may be worth accepting with monitoring by management. The risk may also not need specific application of resources in which case the risk is accepted by management.



**Oversight and Reporting Structure**

The Risk Management Committee has been convening every quarter in 2009. This Committee is chaired by the Chief Executive Officer and addresses all strategic and related issues that impact the business and the adequacy of the mitigation measures that have been put in place. This Committee consists of all business, technical and financial heads of department. Effectiveness of the measures taken and follow-up actions are also part of the Agenda. The operational risk registers are updated by the risk owners on a six-monthly basis as a separate exercise.

The relevant strategic issues are to be escalated to the Audit and Risk Management Committee meetings for further deliberations and update. This ongoing process would help to further enhance the risk management culture and processes in the Company.