



Statement on CORPORATE GOVERNANCE

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

The Board of Directors (the Board) of CCM Duopharma Biotech Berhad (CCMD or the Company) remains committed in its efforts to implement the principles and recommendations set out in the Code. The adoption of good corporate governance is a fundamental part of the Board's responsibility to protect and enhance shareholders' value and to build sustainable business growth for the Company.

The following statement sets out how the Company has applied the principles and recommendations as contained in the Code during the financial year.

PRINCIPLE 1

ESTABLISH CLEAR ROLES AND RESPONSIBILITIES

Recommendation 1.1 Clear Functions between the Board and Management

The Board retains full and effective control of the Company. This includes responsibilities for determining the Company's overall strategic direction as well as development and control of the Company. To ensure effective discharge of its function and responsibilities, the Board has delegated specific responsibilities to Board Committees, namely the Nomination and Remuneration Committee and Audit and Risk Management Committee.

The Board has established clear functions which are reserved for the Board and those delegated to Board Committees and Management. Key matters, such as approval of annual and quarterly results, acquisitions and disposals, as well as material agreements, major capital expenditure, short term and long term plans and strategies and succession planning for top management are reserved for the Board. Meanwhile, all Board Committees have their terms of reference approved by the Board. These committees have the authority to examine particular issues and submit reports of their deliberations and major findings to the Board. The Chairmen of the relevant committees also present and report to the Board the key issues deliberated by the Board Committees at their respective meetings. The terms of reference, composition and activities of the respective committees are stated in their respective reports.

The Board maintains a close and transparent relationship with the Management. A clear limit of authority for Management to manage the business of the Company has been established. Many of the responsibilities of the Board are delegated to Management through the Chief Executive Officer. The Chief Executive Officer is accountable to the Board for the achievement of the Company's corporate objectives which include performance targets and long term goals of the business.

At each normal Board meeting, the Board receives from or through the Chief Executive Officer the operational report and other reports and proposals and assurances as the Board considers necessary to confirm that the management authorities are being observed.

Recommendation 1.2 Clear Roles and Responsibilities

The Board assumes, among others, the following responsibilities:

- i. Review and adopt strategic plan of the Company

The Board plays an active role in the development of the Company's strategy. The Board is presented with the short and long term strategy of the Company annually together with its proposed business plans for the ensuing year. The Board conducts a quarterly review of the performance targets and long term goals of the business to ensure that the needs of the Company are consistently met and are furnished with information relating to the running of the Company's operations through 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.

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

- ii. Oversee the Conduct of the Company's Business

The Board oversees the performance of management to determine whether the business is being properly managed. In this regard, the Chief Executive Officer is critical to the performance of the Company and provides the leadership and strategic vision of the Company. He is responsible for the day-to-day running of the business and operations of the Company including organisational effectiveness, implementation of Board



Statement on CORPORATE GOVERNANCE cont'd

policies and strategies and clarifies matters relating to the Company's business to the Board. His in-depth and intimate knowledge of the Company's affairs contributes significantly towards the direction of the Company to achieve its goals and objectives.

The Chief Executive Officer is supported by the Management Committee and other committees established under the Company. These committees have their own specific terms of reference to ensure that the objectives and aspirations of the Company are met.

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

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

In managing risks, the Board has adopted the CCM Group Enterprise Risk Management (ERM) Framework which is in compliance with the universally accepted standard, ISO 31000 for Risk Management. The Board has also adopted the Group's Risk Management Policy to ensure an effective risk management programme and control system is in place and thereby facilitating the Company in meeting all its business objectives.

iv. Succession Planning

The Board has entrusted the Nomination and Remuneration Committee with the responsibility to review and recommend to the Board, candidates for top management position. The candidates go through a rigorous assessment prior to being recruited to ensure that they have the sufficient experience and are the right fit for the Company.

The Company has in place a talent management programme which is handled at the holding company level to ensure the Company has talents to meet its future needs besides having a pipeline of successors for mission critical positions.

v. Oversee the development and implementation of a shareholder communication policy

The Board values the dialogue with shareholders and appreciates the keen interest of shareholders on the Company's performance. In this regard, the Board at its meeting held on 13 December 2012 has established a Shareholder and Investor Communication Policy to meet or otherwise communicate with the shareholders of the Company.

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

The Board is fully aware of the responsibilities to maintain a sound internal control system. The Board's responsibilities for the Company's system of internal controls cover not only financial aspects of the business but also operational, regulatory compliance as well as risk management matters. Details pertaining to the Company's internal control system and the review of its effectiveness are set out in the Statement on Risk Management and Internal Control in the Annual Report on pages 47 to 49.

Recommendation 1.3 Formalise ethical standards through a code of conduct and ensure its compliance

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

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

As part of best practices in good corporate governance, the Company has adopted the CCM Group's "Whistle-Blowing" policy to encourage employees to report any major concerns over any wrongdoing within the Company 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.

Recommendation 1.4 **Strategies promoting sustainability**

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

As part of the CCM Group, the Company has conducted the group-wide activities on sustainability to achieve the four focus areas above which included E3R programme (Eliminate, Reuse, Reduce, Recycle) and SET3 Programme. E3R focuses on the Company's effort to reduce natural resources dependence by 10% while the SET3 Programme encourages staff to take a few minutes to observe safety hazards within his/her boundaries. Detail report on Sustainability and Safety is presented in this Annual Report on page 12.

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

Name of Directors	No. of Meetings Attended
Tan Sri Dato' Dr. Abu Bakar bin Suleiman Chairman, Non-Independent Non-Executive Director	7/7
Tan Sri Dato' Dr. Jegathesan a/I N.M. Vasagam @ Manikavasagam Independent Non-Executive Director	6/7
Datuk Alias bin Ali Non-Independent Non-Executive Director	7/7
Haji Ghazali bin Awang Senior Independent Non-Executive Director	6/7
Amirul Feisal bin Wan Zahir Non-Independent Non-Executive Director	7/7

Recommendation 1.5 **Access to Information and Advice**

The Chairman is primarily responsible for ensuring that sufficient information is provided to the Board members to assist them in their deliberation. He ensures that all relevant issues and quality information to facilitate decision making and effective running of the Company's business are included in the board meeting agenda. In doing so, the Chairman will liaise with the Chief Executive Officer and the Company Secretary on the agenda for 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 were held during the year. Additional meetings were 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 from the respective Board Committees;
- Business plan and direction;
- Current operations 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.



Statement on CORPORATE GOVERNANCE cont'd

All Directors have the same right of access to all information within the Company 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 Management either at Board meetings or during business unit visits. This will assist the Board in arriving at business and strategic decisions relating to the Company. The Directors also have access to 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 including 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 Company.

Recommendation 1.6 **Qualified and Competent Company Secretary**

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

Recommendation 1.7 **Board Charter**

The Board Charter sets out the authority, responsibilities, membership and operation of the Board of the Company, in adopting principles of good corporate governance and practice, that is in accordance with applicable laws. The document clearly states the roles and responsibilities of the Board and Board Committees and the processes and procedures for convening their meetings. It also serves as a reference for all Board members as well as a primary induction

literature for newly appointed board members in providing insights into the fiduciary and leadership functions of the Board.

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

PRINCIPLE 2

STRENGTHEN COMPOSITION

The Company's Articles of Association stipulates that the minimum and maximum number of directors on the Board shall not be less than three (3) and more than nine (9). An alternate director shall not be counted in the determination of minimum or maximum number of directors on the Board.

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 Company effectively. A brief description on the background of the Directors is presented in the Board of Directors' Profile section of this Annual Report on pages 18 to 22.

Haji Ghazali bin Awang has been appointed as Senior Independent Non-Executive Director to whom concerns relating to the Company may be conveyed by the shareholders and other stakeholders.

The Board consists of five (5) members comprising three (3) Non-Independent Non-Executive Directors and two (2) Independent Non-Executive Directors. The composition of the Board was maintained so that not less than one-third (1/3) were independent directors at all times, in line with the Main Market Listing Requirements. This balance enables the Board to provide clear and effective leadership to the Company and to bring informed and independent judgement to many aspects of the Company's strategies so as to ensure that the highest standards of conduct and integrity are maintained.

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

Recommendation 2.1 Nomination and Remuneration Committee

The Company has in place a Nomination and Remuneration Committee (NRC) with specific terms of reference. The NRC comprise of three (3) members who are non-executive directors with the majority being independent directors. The Chair of the Committee is held by the Senior Independent Director, Haji Ghazali bin Awang.

Details pertaining to the Nomination and Remuneration Committee and its terms of reference are set out in the Annual Report on pages 44 to 46.

Recommendation 2.2 Develop, maintain and review criteria to be used in recruitment process and annual assessment of directors

i. Recruitment/Appointment of Directors

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

The NRC is responsible for reviewing, on an annual basis, the appropriate skills, experience and characteristics required for Board Members. The Chairman of the Board is required to actively participate in the selection of Board Members.

The proposed appointment of a new member to the Board as well as the proposed re-appointment and re-election of Directors seeking re-election at the Annual General Meeting (AGM) are recommended by the NRC to the Board for their approval. The Company's Articles of Association provide that at least one third (1/3) of the Board are subject to retirement by rotation at each AGM provided always that each Director shall retire at least once in every three years. The Directors to retire in each year are the Directors who have been longest in office since their appointment or re-appointment. This provides an opportunity for shareholders to renew

their mandate. To assist shareholders in their decision, sufficient information such as personal profile, meeting attendance and the shareholdings in the Company of each Director standing for election are furnished in a separate statement accompanying the Notice of Annual General Meeting.

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

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

For the current year, the Board has approved the NRC's recommendation for two (2) directors, Datuk Alias bin Ali and Haji Ghazali bin Awang to retire and be re-elected at the forthcoming AGM.

ii. Induction Program

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

iii. Board Evaluation Assessment (BEA)

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

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



Statement on CORPORATE GOVERNANCE cont'd

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

iv. Gender Diversity

The Board recognises the value of having gender diversity in the Board. As an initial step, the Board will endeavour to ensure that gender diversity is taken into account in nominating and selecting new directors of the Company and will actively seek to identify suitable female candidates to be invited to sit on the Board.

v. Remuneration Policy

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 Company successfully.

The component parts of remuneration are structured so as to link rewards to corporate and individual performance, in the case of the Chief Executive Officer. In the case of Non-Executive Directors, the Board has established a formal and transparent remuneration policy to attract and retain Directors, motivate Directors

to achieve Company's objective and align interest of Directors with long term interest of shareholders. The level of remuneration for non-executive directors is based on their responsibilities in Committees and the Board.

a. Directors Remuneration

The Non-Executives Directors are entitled to directors fees. In addition, the Non-Executive Directors are also entitled to Board Committee Fees on which they sit on. The proposed directors and committees fees will be tabled at the Annual General Meeting for shareholders approval.

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

Details of Directors' remuneration paid by the Company for the financial year ended 31 December 2012 are as follows:-

Non-Executive Directors	RM'000
Fees	242

Note: * Fees include Board Committee fees

Number of Directors whose remuneration falls within the following bands:

	Executive Directors	Non-Executive Directors	Total
RM50,000	-	4	4
RM50,001 to RM100,000	-	1	1

b. Indemnification and Directors and Officers Insurance

In addition to the directors remuneration above, the directors are provided with a Directors and Officers Liability Insurance in respect of any liabilities arising in the course of discharging directors' duties provided always that such wrongful acts occur in good faith and not as a result of dishonesty, fraud, insider trading, malicious conduct, fines, penalties, liabilities arising from intentional breach of contract and liquidated, punitive or exemplary damages.

PRINCIPLE 3

REINFORCE INDEPENDENCE

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

Recommendation 3.1 Annual Assessment of Independent Directors

The Board consists of five (5) Non-Executive Directors, two (2) of which are independent. In ensuring that independent judgments are not compromised, the Board has adopted a policy on assessment of independence on its independent directors which is conducted on an annual basis or as and when a disclosure is made by any Director in respect of any new interest or relationship. The policy makes reference to Chapter 1 and Practice Note 13 of Bursa Malaysia's Main Market Listing Requirements.

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

Recommendations 3.2 and 3.3 Tenure of Independent Director

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

Recommendations 3.4 and 3.5 Position of Chairman and CEO and Board Balance

There is a division of responsibility between the Chairman and the Chief Executive Officer to ensure a balance of power and authority. The roles of the Chairman and the Chief Executive Officer 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 Chief Executive Officer and the Company Secretary on agenda for board meetings. The Chairman encourages healthy debates on issues raised at meetings and gives opportunity to directors who wish to speak on the motions, either for or against them. Every Board resolution is then put to a vote which would reflect the collective decision of the Board and not the views of an individual or an interested group. The Chairman also chairs the meeting of shareholders of the Company. At the general meetings of the Company, the Chairman will ensure that the shareholders are given the opportunity to enquire on the Company's affairs. The Chief Executive Officer focuses on the business and the day-to-day management of the Company. He is the conduit between the Board and Management in ensuring the success of the Company's governance and management functions. The Chief Executive Officer implements the policies, strategies and decisions adopted by the Board (Recommendation 3.4).

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

PRINCIPLE 4

FOSTER COMMITMENT

Recommendation 4.1 Time Commitment

The Board has established a formal and transparent policy on the appointment of Directors. In recommending or nominating a candidate to fill the position of Director in the Company, the Board will consider the candidate's ability to devote sufficient time to effectively discharge the duties as a director of the Company. This includes attendance of at least 50% of all board of directors and board committee meetings, or as determined



Statement on CORPORATE GOVERNANCE cont'd

from time to time by the Board. Appointed directors are also expected to devote their time to other matters involving the Company's affairs. In addition to the policy above, the time commitment required of the Directors are also incorporated as one of the terms in their appointment letter to the Board.

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

In line with the Main Market Listing Requirements (MMLR) of Bursa Malaysia Securities Berhad, Directors are also required to comply with the requirements of maximum five (5) directorships in listed companies. This allows them to devote their time and discharge their duties effectively with the companies in which they are directors. Board meetings are scheduled a year ahead in order to enable full attendance at Board meetings.

Recommendation 4.2 **Continuing Education Programme**

The Board acknowledges the importance of continuous education and training to enable effective discharge of its responsibility.

All Board members have attended the Mandatory Accreditation Programme (MAP) as prescribed by the Main Market Listing Requirements and the costs are borne by the Company.

The Continuous Education Programme focuses on business specific issues relating to the Company and the latest development within the related industries and is conducted in-house at least two (2) times per year. The programme is extended to all Directors and Senior Management of the Company. The Directors can also on their own initiatives, request to attend ad-hoc trainings, seminars or conferences conducted by third party providers to enhance their knowledge or skills in specific areas. The costs of attending such training/forums are borne by the Company. Among of the trainings attended by the Directors cover the areas of law, corporate governance, finance, healthcare and risk management.

During the year, the directors of the Company have attended in-house seminars on "Lean Six Sigma - Executive Overview" and "Highlights of Key Provisions in the Proposed Companies Bill" which were organised by the CCM Group. The seminars were facilitated by industry expert as part of the Continuing Education Programme.

The Lean Six Sigma - Executive Awareness training was held with the objective to provide the Board with an overview of the Lean Six Sigma concepts, methodology and practical applications. In respect of the training on "Highlights of Key Provisions in Proposed Companies Bill" which was held on 19 October 2012, the Board was appraised on the new Companies Bill which is expected to replace the existing Companies Act, 1965.

PRINCIPLE 5

UPHOLD INTEGRITY IN FINANCIAL REPORTING

Recommendation 5.1 **Compliance with applicable reporting standards**

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

The ARMC meets on a quarterly basis to review the integrity and reliability of the financial statements in the presence of the Chief Financial Controller and the Group Internal Auditor prior to recommending them to the Board for approval.

The ARMC, with the assistance and assurance of the Group Internal Auditor also reviews the internal control within the organisation in ensuring effective and efficient utilisation of the Company's assets.

Recommendation 5.2 **Suitability and Independence of External Auditors**

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

The Board has also approved a policy on External Auditors' Independence whereby the ARMC is given the task to review

and assess the independence of the External Auditor annually at the time the External Auditor presents its annual audit plan. It is expected that the External Auditor will rigorously comply with its own internal policies on independence and all relevant professional guidance on independence. The ARMC will further ensure that the policies governing the provision of non-audit fees are observed.

The ARMC held two (2) meetings with the External Auditors without the presence of the management during the financial year under review.

PRINCIPLE 6

RECOGNISE AND MANAGE RISKS

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

Recommendation 6.1

Establish sound framework to manage risks

The Board, through the ARMC, determines the Company's level of risk tolerance and actively identify, assess and monitor key business risks to safeguard shareholders' investment and the Company's assets.

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

The Company's current ERM Framework which is currently automated has been aligned with the methodologies of ISO 31000 guidelines on managing risks which includes quantification of risks, review of CCM Risk Universe and adopting a KPI linked risk reporting.

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

Recommendation 6.2

Internal Audit Function

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

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

The Group Internal Auditor has direct access to the Board through the Chairman of ARMC.

The function of the Group Internal Audit Department on the systems of internal control is to assist the ARMC 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 ARMC and Management.

Details of the Company's internal control system and framework are set out in the Audit and Risk Management Committee Report and Statement on Risk Management and Internal Control of this Annual Report on pages 39 to 43 and 47 to 49 respectively.

PRINCIPLE 7

ENSURE TIMELY AND HIGH QUALITY DISCLOSURE

Recommendation 7.1

Corporate Disclosure Policy

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

- a. provide shareholders, investors, analysts, media representatives and other stakeholders with comprehensive, accurate and quality information issued by the Company on a timely and even basis;
- b. raise awareness and provide guidance to the Board, management, officers and employees on the Company's disclosure requirements and practices;



Statement on CORPORATE GOVERNANCE cont'd

- c. ensure that the Company meets its disclosure obligations in accordance with the securities laws and regulations governing corporate disclosure and confidentiality in relation to securities listed on Bursa Malaysia;
- d. ensure that the Company observes best practices in relation to disclosure as illustrated in the Corporate Disclosure Guide by Bursa Malaysia; and
- e. promote investor confidence in the integrity of the Company.

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

Recommendation 7.2 **Leverage on Information Technology for Effective Dissemination**

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

- i. Annual Reports;
- ii. Quarterly Financial Results;
- iii. Bursa Malaysia Announcements;
- iv. Corporate proposals;
- v. News releases;
- vi. Investor Relations presentations;
- vii. Speeches;
- viii. Financial highlights for the past five years.

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

PRINCIPLE 8

STRENGTHEN RELATIONSHIP BETWEEN COMPANY AND SHAREHOLDERS

Recommendation 8.1 **Encourage Shareholder Participation at General Meetings**

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

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

Recommendation 8.2 **Encourage poll voting**

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

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

Recommendation 8.3 **Effective communication and proactive engagement**

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

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

i. Annual General Meeting

The Annual General Meeting (AGM) provides a forum for dialogue with shareholders and aims to ensure that the AGM provides an important opportunity for effective communication with and constructive feedback from the Company's shareholders. Members of the Board, the Company's Senior Management, as well as the Company's auditors will be present to answer questions about the Company'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 Company. Shareholders who are unable to attend are allowed to appoint proxies to attend and vote on their behalf. Where necessary, the Chairman or the Chief Executive Officer will undertake to provide written answers to any significant questions that cannot be readily answered at the meeting.

The turnout of shareholders at the Company's AGM has always been large. A total of 86 shareholders and 146 proxies attended the AGM in 2012.

ii. Extraordinary General Meetings

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

Notices of general meetings and the accompanying explanatory materials are provided within the prescribed time or earlier than the minimum notice period prior to the

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

iii. 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 Company 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.duopharma.com.my

iv. Company's Website

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

v. Announcement of Quarterly Results for the Financial Year Ended 31 December 2012

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 2012

Date of Announcement

1st Quarter	17 May 2012
2nd Quarter	16 August 2012
3rd Quarter	23 November 2012
4th Quarter	25 February 2013



Statement on CORPORATE GOVERNANCE cont'd

Statement of Compliance with the Principles and Recommendations of the Code

The Company has in all material respects complied with the principles and recommendations of the Malaysian Code on Corporate Governance 2012 (the Code) throughout the financial year ended 31 December 2012 save for Recommendation 2.2 on Gender Diversity target (Principle 2) and Recommendation 3.5 on non-independent Chairman (Principle 3) which are explained earlier.

This statement is made in accordance with a resolution of the Board of Directors dated 22 March 2013.

ADDITIONAL COMPLIANCE INFORMATION

1. Non-Audit Fees

During the financial year ended 31 December 2012, the non-audit fees paid to the external auditors or a firm or a company affiliated to the Auditor's firm amounted to approximately RM14,000.00.

2. Material Contracts

There were no contracts entered into by the Company involving Directors or major shareholders' interest, either subsisting at the end of the financial year ended 31 December 2012 or entered into since the end of the previous financial year.

3. Revaluation policy

The Company 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 2012.

5. Employees' Share Option Scheme (ESOS)

The Company has not approved any ESOS during the financial period ended 31 December 2012.

6. Options, Warrants or Convertible Securities

There were no options, warrants or convertible securities issued by the Company during the financial period ended 31 December 2012.

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

During the financial period ended 31 December 2012, 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 Company 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 2012 by the Company.

10. Contract Relating to Loans

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

11. Recurrent Related Party Transaction of Revenue or Trading Nature

At an Annual General Meeting (AGM) held on 24 May 2012, the Company obtained a shareholders' mandate to allow the Company to enter into recurrent related party transactions of 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 24 May 2012 until the conclusion of the forthcoming Annual General Meeting of the Company. The disclosure of the recurrent related party transactions conducted during the financial period ended 31 December 2012 is set out on page 102 and pages 115 to 117 of the Annual Report.

The Company 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 Company. The details of the new mandate to be sought are furnished in the Circular to Shareholders dated 17 May 2013.