

# Statement on Corporate Governance

for the Financial Year ended 31 December 2014

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

The Board of Directors (“the Board”) of CCM Duopharma Biotech Berhad (“CCMD” or “the Company”) remains committed in its efforts to implement the principles and best practices 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 statements set 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 being responsible for the determination of the Company’s overall strategic directions as well as the 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 (“NRC”) and the Audit and Risk Management Committee (“ARMC”).

The Board has established clear functions which are reserved for the Board and those delegated to Board Committees and Management. Key matters, such as the approval of annual and quarterly financial results, acquisitions and disposals, entering into material agreements, major capital expenditure, short term and long term plans and strategies and succession planning for Senior Management are reserved for the Board. Each Board Committee has its terms of reference approved by the Board. These Board Committees have the authority to examine particular issues and submit reports of their deliberations and major findings to the Board. The Chairmen of the Board Committees also present and report the key issues deliberated at the Committee level to the Board during Board meetings. The terms of reference, composition and activities of the Board Committees are set out in their respective sections in this Annual Report.

The Board maintains a close and transparent relationship with Management. Management is appropriately empowered with clear limits of authority to manage the business of the Company. 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 business goals.

The Chief Executive Officer routinely reports to the Board on the Company’s progress towards achieving performance targets and long term business goals. The Chief Executive Officer also tables other reports, proposals and assurances as the Board considers necessary to confirm that the management limits of authority are being observed. The Board monitors the decisions and actions as well as the performance of the business to gain assurance that progress is being made towards the Company’s objectives within the limits it has imposed through the governance framework.

**Recommendation 1.2**  
**Clear Roles and Responsibilities**

The Board assumes, among others, the following responsibilities:-

(i) Review and Adopt the Strategic Plan of the Company

The Board plays an active role in the development of the Company's strategy. On an annual basis, the Board is presented with the short and long term strategy of the Company together with the Company's proposed business plans for the oncoming 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. The Board is furnished with information relating to the running of the Company's operations through quarterly reports prepared by the Management. This allows the Board to better understand the operations and make decisions in steering the Company towards a profitable business.

The Board also reviews and approves the Company's 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 ensure that the Company's business is being properly managed. In this regard, the role of the Chief Executive Officer is critical to the performance of the Company to provide the leadership and realise the strategic vision of the Company. He is responsible for the day-to-day running of the business and operations of the Company including ensuring organisational effectiveness, implementing Board policies and strategies, and clarifying 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 taken by 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.

As check and balance, and to ensure independence, the CCM's Group Risk Department provides the Board with a separate status report of enterprise risk on a quarterly basis. The CCM's Group Internal Auditor also provides the Audit and Risk Management Committee of the Board with audit and risk reports as and when audit and risk assignments are completed.

(iii) Identifying Principal Risks and Ensuring the Implementation of Appropriate Internal Controls and Mitigating Measures

In relation to the management of risks, the Board adopts 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 CCM Group's Risk Management Policy to ensure that an effective risk management programme and control system is in place in order to facilitate the Company to meet all its business objectives.

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### (iv) Succession Planning

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

A talent management programme at the CCM Group level helps to ensure that the Company has access to 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 dialogue with shareholders and appreciates the keen interest shown by shareholders of the Company's performance. A Shareholder and Investor Communication Policy sets out the guidelines for communication with the shareholders of the Company. The said policy can be accessed on the Company's website.

### (vi) Review the Adequacy and Integrity of the Management Information and Internal Control Systems

The Board is fully committed to maintain a sound system of internal control. 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 system of internal control and the review of its effectiveness are set out in the Statement on Risk Management and Internal Control in the Annual Report on pages 57 to 58.

## Recommendation 1.3

### Formalise Ethical Standards Through a Code of Conduct and Ensure its Compliance

The Company has in place a 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, respectively. The Directors' Code of Best Practise addresses, among other things, matters relating to the duties of and conduct as Directors, conflict of interests and conduct in meetings. The Directors are also required to annually submit a Directors' Confirmation Form to the Company, confirming their remuneration and benefits received, interest in shares and debentures and any related party transactions conducted with the Company.

The Company adopts the CCM Group's Code of Conduct ("Code of Conduct") which commits the Company to ethical values and standards of conduct expected of the Company. It is based upon CCM Group's vision, mission and core values and embodies the principles contained in various policies adopted by the CCM Group. The Code of Conduct provides guidance on the application of the Group's core values by the employees in conducting the Company's business and activities. The Code of Conduct covers, among other things, all aspects affecting 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 adopts the CCM Group's Whistle-Blowing Policy ("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. The Whistle-Blowing 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.

To further enhance its good corporate governance practices and strengthen the ethical standards within the CCM Group, an Integrity Unit (the “Integrity Unit”) was established at the CCM Group level in September 2013 to manage integrity issues within the organisation. The Integrity Unit is responsible for, among other things, the following:-

- Governance – to ensure the conduct of best practices in governance;
- Strengthen integrity – to ensure that integrity is inculcated into the Group’s culture and is institutionalised in the actions of all employees;
- Detection and verification of wrongdoings – to detect and confirm the information/complaints on criminal misconducts as well as violations of the Group’s Code of Conduct and business ethics and to ensure that follow up actions are duly taken. The Integrity Unit is also responsible for reporting criminal misconducts to the relevant enforcement agencies;
- Complaint management – to receive and take the necessary actions on all information/complaints received on criminal misconducts as well as violations of the Group’s Code of Conduct and business ethics;
- Compliance – to ensure compliance with laws and regulations;
- Disciplinary actions – to carry out the secretariat function to the Disciplinary/Integrity Board Committee.

The function of the Integrity Unit is under the purview of the Audit and Compliance Committee of CCM Berhad. A hotline has been set up at **ccmintegrity@gmail.com** for any parties to whistle blow on any concerns that they become aware of.

#### **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, the environment, our people and the community. To achieve this, the Board has adopted the CCM Group’s Corporate Sustainability Policy (“Corporate Sustainability Policy”) which focuses on stakeholder and marketplace expectations, the environment, workplace sustainability and community needs.

In ensuring a strong sustainable continuous business, the Company will continue to consolidate its efforts to ensure a strong culture of Continuous Improvement with Safety, Health and Environment in mind; implementing all Sustainability programme, as far as possible based on the Halal principles. This augurs well with the Company’s core values, in particular, Integrity.

2014 saw the Company’s Operational Excellence programme contributing RM4.6 million towards Operating Profit and a total of RM8.2 million since June 2012. The Company has also been certified with ISO 9001:2008 certification.

On Safety, Health and Environment, the Company has initiated various in house projects such as SHE Week, Fire Drill, First Aid Training, Safety Audit and In House Safety Awareness Training.

The Company together with CCM Pharmaceuticals Sdn. Bhd. also collaborated with IKIM.fm for the Kompas Kesihatan and JAKIM Media RTM1 on Halal Pharmaceutical programmes and as well as how Halal can be a competitive advantage moving forward. The Company also participated at national level, as part of the Halal Industry Development Corporation Working Group in promoting Halal Pharmaceuticals as one of the key drivers building up Malaysia Global Halal Hub aspiration. It also participated in the 1st OIC Vaccine Manufacturers Group to discuss on how to ensure adequate supply of vaccine is available in OIC.

A detailed report on sustainability and corporate responsibility is featured on page 12 to 15.

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## Recommendation 1.5

### Access to Information and Advice

The Chairman is primarily responsible for ensuring that sufficient information is provided to the Board members (“Directors”) to assist them in their deliberations. 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. To this end, the Chairman liaises with the Chief Executive Officer and the Company Secretary to finalise the agendas 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 are held during the year. Additional meetings are held as and when required.

There is a formal agenda for all scheduled meetings and Board papers are prepared and submitted in advance to ensure adequate and quality information is available to assist the Board in its deliberation. The Board papers include, among others, the following:-

- Minutes of Meetings;
- Reports from the respective Board Committees;
- Business plan and direction;
- Current operating and business issues;
- Annual budget review, forecasts and projections;
- Quarterly and annual financial reports;
- Potential acquisitions and disposal of assets of substantial value;
- Major investment and financial decisions; and
- Key policies, procedures and authority limits.

During the financial year, eight (8) Board Meetings were held. Details of the Directors’ meeting attendance during the financial year are as follows:-

Name of Director	No. of Meetings Attended
<b>Tan Sri Dato’ Dr. Abu Bakar bin Suleiman</b> Non-Independent Non-Executive Chairman	8/8
<b>Dato’ Haji Ghazali bin Awang</b> Senior Independent Non-Executive Director	8/8
<b>Tan Sri Dato’ Dr. Jegathesan a/l N.M. Vasagam @ Manikavasagam</b> Independent Non-Executive Director	8/8
<b>Datuk Alias bin Ali</b> Non-Independent Non-Executive Director	8/8
<b>Dato’ Mohamad Kamarudin bin Hassan</b> Independent Non-Executive Director	8/8
<b>Amirul Feisal bin Wan Zahir</b> Non-Independent Non-Executive Director (Resigned w.e.f. 1 October 2014)	5/5

All Directors have the same right of access to all information within the Company. It is a Director's duty to make further enquiries where they may require so to discharge 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 by all Directors.

The Company also provides a platform for dialogue between the Board and Management either at Board meetings or during the business unit visits. This will assist the Board in arriving at business and strategic decisions relating to the 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 as well as statutory and regulatory requirements relating to the duties and responsibilities of Directors. When necessary, the Directors also visit locations of business units which would assist the Board to make effective decisions relating to the Company.

**Recommendation 1.6**  
**Qualified and Competent Company Secretary**

The appointment or removal of Company Secretary or Secretaries to the Board shall be the prerogative of the Board as a whole. The Board is assisted by a qualified and competent Company Secretary to ensure 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 Directors have unrestricted access to the advice and services of the Company Secretary for the purposes of the conduct of the Board's affairs and the 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 outlines the roles and responsibilities of the Board and Board Committees and the processes and procedures for convening their meetings. It serves as a reference for all Board members and is a primary induction literature for newly appointed Board members in providing insight 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 its 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 two (2) or more than nine (9). An alternate director shall not be counted in the determination of the 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 20 to 24.

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As at 31 December 2014, the Board has five (5) members comprising two (2) Non-Independent Non-Executive Directors and three (3) Independent Non-Executive Directors. The composition of the Board was maintained so that not less than one-third (1/3) were independent 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 judgment to many aspects of the Company's strategies so as to ensure that the highest standards of conduct and integrity are maintained.

In accordance with the best practices in corporate governance, the Board appoints a Senior Independent Non-Executive Director to whom concerns of shareholders and stakeholders relating to the Company may be conveyed. At present, Dato' Haji Ghazali bin Awang, is the Senior Independent Non-Executive Director. He is also the Chairman of the Audit and Risk Management Committee ("ARMC") and the Nomination and Remuneration Committee ("NRC").

To ensure 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 the selection and nomination of candidates for the Board and Board Committees, review of the 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 comprises three (3) members who are Non-Executive Directors with the majority being independent directors. The Chair of the NRC is held by the Senior Independent Non-Executive Director, Dato' Haji Ghazali bin Awang.

Details pertaining to the NRC and its terms of reference are set out in the Annual Report on pages 54 to 56.

### **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 responsibilities of the NRC as set out in its terms of reference is to recommend to the Board candidates to fill all directorships on the Board and Board Committees of the Company, be it a new appointment or re-election/reappointment. In executing this role, the NRC is guided by the Board's Nomination and Selection Process. The Board's Nomination and Selection Process outlines the skill sets, knowledge/experience, mindset and the intrinsic values required of the concerned director vis-a-vis the needs 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 of Directors. The Chairman of the Board is required to actively participate in the selection of Directors.

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. Article 93 of the Company's Articles of Association provides 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. The Directors retiring under this Article at the forthcoming AGM is Datuk Alias bin Ali and, having been eligible, has offered himself for re-election.

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In addition, Article 99 of the Company's Articles of Association also provides that any Director who is appointed to fill a casual vacancy or as an additional Director shall hold office only until the next AGM and shall then be eligible for re-election but shall not be taken into account in determining the number of Director who retire by rotation at the meeting.

A 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. In this respect, two of our directors, Tan Sri Dato' Dr. Abu Bakar bin Suleiman and Tan Sri Dato' Dr. Jegathesan a/l N.M. Vasagam @ Manikavasagam, have reached seventy years of age before the next AGM.

In view of the current corporate exercise in respect of the proposed acquisition of CCM Pharmaceuticals Sdn. Bhd., Innovax Sdn. Bhd., CCM International (Philippines) Inc., CCM Pharmaceuticals (S) Pte. Ltd., CCM Pharma Sdn. Bhd. and UPHA Pharmaceutical Manufacturing (M) Sdn. Bhd. (collectively known as "Proposed Acquisition"), the Company is proposing that the two directors who have attained the age of 70 years i.e. Tan Sri Dato' Dr. Abu Bakar bin Suleiman and Tan Sri Dato' Dr. Jegathesan a/l N.M. Vasagam @ Manikavasagam be re-appointed to ensure continuity of strategy and plans as well as to provide stability to the Group post the Proposed Acquisition. Both directors have offered themselves for re-appointment to hold office until the next AGM.

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

The Company has in place a Succession Planning Programme which includes, inter alia, guidelines on appointment, training, fixing of compensation and replacement of Directors and Senior Management of the Company.

### (ii) Induction Programme

As part of the familiarisation process of a newly appointed Director, he/she is required to undergo an Induction Programme specially designed to familiarise the directors with the businesses within the Company. This familiarisation process includes briefing sessions 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 businesses.

### (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 cover the following main components:-

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

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

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### (iv) Boardroom Diversity

The Board recognises the importance of diversity as an essential measure of good governance. Consequently, as part of the Board's selection and nomination process, due emphasis is given to ensure that the Board comprises members from a diverse background of skills, professional experience, age, ethnicity and culture to provide different perspective and view points for better decision making. The Board currently comprises four (4) Bumiputera Directors and one (1) Non-Bumiputera Director. Two (2) Directors are above the age of seventy (70).

The Board at its meeting in February 2015 had also given its commitment on gender diversity by adopting a policy to ensure that at least 30% of its Board members comprise women directors by 2016. At the moment, the Company is actively seeking 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, retain and motivate Directors to achieve the Company's objective as well as align the interest of Directors with the long term interest of shareholders. The level of remuneration for Non-Executive Directors is based on their responsibilities in the Board and Board Committees.

#### (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. In 2014, the shareholders approved the revision to the directors fees to be in line with market and industry practice. The Chairman of the Board now receives a fee of RM85,000 per annum while other members receive RM60,000 per annum. In addition, the Chairman of each Board Committee receives RM7,000 per annum while members of each Board Committee receive RM5,000 per annum. 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 a fixed component of a monthly salary and benefits-in-kind, and a variable component in the form of a performance bonus.

The Board's remuneration is reviewed from time to time and is benchmarked against industry practice. Details of the Directors' remuneration paid by the Company for the financial year ended 31 December 2014 are as follows:-

<b>Non-Executive Directors</b>	<b>RM'000</b>
Fees	408

*Note: \* Fees include Board Committee fees*

The number of Directors whose remuneration falls within the following bands is as follows:-

	<b>Executive Directors</b>	<b>Non-Executive Directors</b>	<b>Total</b>
Below RM50,000	–	–	–
RM50,001 to RM100,000	–	5	5

(b) Indemnification and Directors & Officers Insurance

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

**PRINCIPLE 3**

**REINFORCE INDEPENDENCE**

The Independent Non-Executive Directors provide unbiased and independent views 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 currently consists of five (5) Non-Executive Directors, three (3) of whom are independent. In ensuring that independent judgments are not compromised, the Board adopts a policy on assessment of independence, whereby the independent directors are assessed annually and 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 most recent assessment, 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 (9) years either in a consecutive service of nine (9) years or cumulative service of nine (9) years with intervals. The Board may, upon the completion of the nine (9) years, re-designate the Independent Director as a Non-Independent Director if it is so determined that the expertise and experience of the Director is still relevant to the Company or the Group (Recommendation 3.2). The Board may also justify and seek the shareholders' approval to otherwise retain the Independent Director who has served in that capacity for more than nine (9) years as Independent Director (Recommendation 3.3). Currently, Dato' Haji Ghazali bin Awang and Tan Sri Dato' Dr. Jegathesan a/l N.M. Vasagam @ Manikavasagam have reached the nine (9) years tenure as Independent Directors of the Company. The Company is proposing that both of them be retained as Independent Directors as both Dato' Haji Ghazali bin Awang and Tan Sri Dato' Dr. Jegathesan a/l N.M. Vasagam @ Manikavasagam have fulfilled the criteria of Independent Directors stated in the Main Market Listing Requirements. They have no business dealings with the Company other than being directors, and have performed their duties diligently and in the best interest of the Company. They have provided independent and balanced assessments of proposals from Management in the course of carrying out their obligations. Their continued services as independent directors is relevant to the Group especially in ensuring the continuity of strategy and plans as well as to provide stability to the Group post the Proposed Acquisition.

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## 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 (Recommendation 3.4). As part of good corporate governance, the Chairman is responsible for ensuring the Board's effectiveness and proper conduct. He ensures that all relevant issues and quality information to facilitate decision making and the effective running of the Group's business are included in the Board meeting agendas. To do so, the Chairman liaises with the Chief Executive Officer and the Company Secretary on the agenda for Board meetings. The Chairman encourages healthy debates on issues raised at meetings and gives opportunity to Directors who wish to speak on the motions, either for or against them. Every Board resolution is then put to a vote, thus ensuring that Board decisions are reflective of the collective decision of the Board and not merely the view of an individual or an interested group. The Chairman also chairs the Company's shareholders' meetings. At the general meetings (shareholders' meetings) of the Company, the Chairman ensures that the shareholders are given adequate opportunity to enquire on the Company's affairs. The Chief Executive Officer, on the other hand, focuses on the business and the day to day management of the Company. He acts as 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.

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-Independent Non-Executive 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 by the Board is based on consensus. The Board will endeavour to maintain more than one third (1/3) Independent Directors in the Board composition 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 his or her duties as a Director of the Company. This includes the ability to attend at least 50% of all Board and Board Committee meetings, or as determined from time to time by the Board. Appointed Directors are also expected to devote their time to other matters involving the Company's affairs such as attending training sessions and also relevant Company events. In addition to the policy above, the time commitment required of the Directors is also incorporated as one of the terms in their appointment letter to the Board.

Any Director, 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 restriction to have not more than 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 Directors have attended the Mandatory Accreditation Programme (“MAP”) as prescribed by the Main Market Listing Requirement and the costs are borne by the Company.

The Continuing Education Programme (“CEP”) 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 times per year. The CEP is extended to all Directors and Senior Management of the Company. The Directors can also, on their own initiative, request to attend ad-hoc trainings, seminars or conferences conducted by third parties to enhance their knowledge or skills in specific areas. The costs of attending such training/forums are borne by the Company. Some of the trainings attended by Directors include sessions in the areas of law, corporate governance, finance, biotherapeutics, integrity and risk management.

In April 2014, a training session on “Corporate Integrity” was organised for the Directors and Senior Management. The training session served as an introduction to the creation and promotion of a corporate integrity culture and enhance awareness of issues related to corporate fraud.

**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 authority to the Audit and Risk Management Committee (“ARMC”) to ensure that the preparation of financial statements comply with the Companies Act, 1965 and approved Malaysia Financial Reporting Standards, and that the accounts give 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 Officer and the Group Internal Auditor prior to recommending them for Board approval.

The ARMC, with the assistance and assurance of the Group Internal Auditor, also reviews the internal controls within the organisation to ensure the effective and efficient utilisation of the Company’s assets.

# Statement on Corporate Governance

for the Financial Year ended 31 December 2014

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

The ARMC reviews the performance of the External Auditor on an annual basis after the completion of the year-end audit, and assesses their suitability and independence. In evaluating the suitability and effectiveness of the 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 employed 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 annually review and assess the independence of the External Auditor 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 guidelines on independence. The ARMC further ensures 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 the 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 controls 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 identifies, assesses and monitors 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 which 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 in-house internal audit function that reports to the ARMC. The internal audit function is independent of the activities it audits, and the audits are 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 internal audit function 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 49 to 53 and 57 to 58 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:-

- (i) 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;
- (ii) raise awareness and provide guidance to the Board, Management, officers and employees on the Company's disclosure requirements and practices;
- (iii) 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;
- (iv) ensure that the Company observes best practices in relation to disclosure as illustrated in the Corporate Disclosure Guide by Bursa Malaysia; and
- (v) 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.

# Statement on Corporate Governance

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## 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](http://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) Share price performance;
- (v) Key financial data and dividend history; and
- (vi) Press releases.

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 had 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 for 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 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.

During the EGM held on 11 March 2015 to pass resolutions pertaining to the Proposed Acquisition, the first resolution on the Proposed Acquisition was carried out via poll voting. The shareholders were also informed of their right to demand for poll voting for the proposed rights issue and amendment to the Memorandum and Articles of Association. However, the shareholders opted for voting to be done 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. 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 usual 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 109 shareholders and 118 proxies attended the AGM in 2014.

(ii) Extraordinary General Meetings

Extraordinary General Meetings ("EGM") are 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 extraordinary 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.

On 11 March 2015, an Extraordinary General Meeting was conducted to approve the acquisition of the following companies:-

- (a) the entire equity interest in CCM Pharmaceuticals Sdn. Bhd. ("CCM Pharmaceuticals") and Innovax Sdn. Bhd. ("Innovax") from Chemical Company of Malaysia Berhad ("CCMB") for an aggregate purchase consideration of RM17,600,000 together with the settlement of advances due from Innovax and CCM Pharmaceuticals to CCMB and its subsidiaries ("CCMB Group") amounting to RM10,655,000 based on 30 September 2014 to be settled via cash;

## Statement on Corporate Governance for the Financial Year ended 31 December 2014

- (b) the entire equity interest in CCM International (Philippines), Inc. (“CCM Philippines”) from CCM Investments Ltd., a wholly-owned subsidiary of CCMB (“CCM Investments”) for a purchase consideration of RM1,000 to be settled via cash;
- (c) the entire equity interest in CCM Pharmaceuticals (S) Pte. Ltd. (“CCM Singapore”) from CCM International Sdn. Bhd., a wholly-owned subsidiary of CCMB (“CCM International”) for a purchase consideration of RM2,417,000 together with the settlement of advances due from CCM Singapore to the CCMB Group amounting to RM27,000 based on 30 September 2014 to be settled via cash;
- (d) the entire equity interest in CCM Pharma Sdn. Bhd. (“CCM Pharma”) and Upha Pharmaceutical Manufacturing (M) Sdn. Bhd. (“Upha Pharmaceutical”) from CCMB for an aggregate purchase consideration of RM113,307,000 together with the settlement of advances due from CCM Pharma and Upha Pharmaceutical to the CCMB Group amounting to RM101,116,000 based on 30 September 2014 to be settled via cash;

The resolutions for a renounceable rights issue of up to 139,479,500 rights shares and an increase in the company’s authorised share capital to RM250,000,000 were also passed at the Extraordinary General Meeting on 11 March 2015.

### (iii) Annual Report

The Directors believe that an important channel to reach shareholders and investors is through the Annual Report. The Annual Report contains comprehensive financial performance and information on business activities of the Company. The Company continuously 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](http://www.duopharma.com.my)

### (iv) Company’s Website

The Company maintains a website at [www.duopharma.com.my](http://www.duopharma.com.my) which can be accessed by shareholders to keep abreast of 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 2014

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:-

<b>Announcement of Quarterly Results 2014</b>	<b>Date of Announcement</b>
1st Quarter	20 May 2014
2nd Quarter	26 August 2014
3rd Quarter	21 November 2014
4th Quarter	24 February 2015

### Statement of Compliance with the Best Practices of the Code

The Company has in all material respects complied with the principles and recommendations of the Malaysian Code of Corporate Governance 2012 (the “Code”) throughout the financial year ended 31 December 2014 save for Recommendations 3.2 and 3.5 on tenure of independent director and non-independent Chairman, respectively, (Principle 3) which are explained earlier.

This statement is made in accordance with a resolution of the Board of Directors dated 9 March 2015.

## **ADDITIONAL COMPLIANCE INFORMATION**

### **1. Non-Audit Fees**

During the financial year ended 31 December 2014, the non-audit fees paid to the external auditors or a firm or a company affiliated to the Auditor's firm amounted to approximately RM15,640.00.

### **2. Material Contracts**

Save for the following, there were no material contracts entered into by the Company involving Directors or major shareholders' interest, either subsisting at the end of the financial year ended 31 December 2014 or entered into since the end of the previous financial year, other than contracts entered into in the ordinary course of business:-

- (a) On 27 November 2014, the Company had entered into the following Share Sale Agreements ("SSA") (hereinafter referred to as the "Proposed Acquisition") in relation to the following:
  - (i) The proposed acquisition of the entire equity interest in CCM Pharmaceuticals Sdn. Bhd. ("CCM Pharmaceuticals") and Innovax Sdn. Bhd. ("Innovax") by CCM Duopharma Biotech Berhad from Chemical Company of Malaysia Berhad ("CCMB") for an aggregate purchase consideration of RM17,600,000 together with the settlement of advances due from Innovax, and CCM Pharmaceuticals and its subsidiaries to CCMB and its subsidiaries ("CCMB Group") amounting to RM10,655,000 based on 30 September 2014 to be settled via cash ("CCMD SSA");
  - (ii) The proposed acquisition of the entire equity interest in CCM International (Philippines), Inc. ("CCM Philippines") by CCM Duopharma Biotech Berhad from CCM Investments Ltd., a wholly-owned subsidiary of CCMB ("CCM Investments") for a purchase consideration of RM1,000 to be settled via cash ("Philippines Company SSA");
  - (iii) The proposed acquisition of the entire equity interest in CCM Pharmaceuticals (S) Pte. Ltd. ("CCM Singapore") by CCM Duopharma Biotech Berhad from CCM International Sdn. Bhd, a wholly-owned subsidiary of CCMB ("CCM International"), for a purchase consideration of RM2,417,000 together with the settlement of advances due from CCM Singapore to the CCMB Group amounting to RM27,000 based on 30 September 2014 to be settled via cash ("Singapore Company SSA");
  - (iv) The proposed acquisition of the entire equity interest in CCM Pharma Sdn. Bhd. ("CCM Pharma") and Upha Pharmaceutical Manufacturing (M) Sdn. Bhd. ("Upha Pharmaceutical") by CCM Duopharma Biotech Berhad's wholly-owned subsidiary, Duopharma (M) Sdn. Bhd. from CCMB, for an aggregate purchase consideration of RM113,307,000 together with the settlement of advances due from CCM Pharma and Upha Pharmaceutical to the CCMB Group amounting to RM101,116,000 based on 30 September 2014 to be settled via cash ("DMSB SSA");
- (b) On 24 December 2014, the Company had entered into a supplementary share sale agreement with CCMB ("Supplementary CCMD SSA") to vary the terms of the CCMD SSA in relation to the Proposed Acquisition; and
- (c) On 24 December 2014, the Company had also entered into two supplementary share sale agreements between CCMD and CCMB, respectively, to vary the terms of the DMSB's SSA in relation to the Proposed Acquisition.

## Statement on Corporate Governance

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### 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 2014.

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

The Company has not approved any ESOS during the financial period ended 31 December 2014.

### 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 2014.

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

During the financial period ended 31 December 2014, 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 2014 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 Transactions of Revenue or Trading Nature

During the Annual General Meeting held on 20 May 2014, 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 20 May 2014 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 2014 is set out on pages 120 to 121 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 30 April 2014.