

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

Responsibility

The Board is responsible for the review of the adequacy and effectiveness of the CCM Duopharma system of risk management and internal controls, which includes financial, operational and compliance controls. The system is designed to manage rather than eliminate the risk of failure to achieve business objectives. Accordingly, it can only provide reasonable and not absolute assurance against material misstatement or loss.

The risk management and control processes are implemented by the Management, led during the year under review by the Chief Executive Officer and Senior Management of CCM Duopharma, who collectively are responsible for good business practices and governance. Following the demerger of CCM Duopharma from the Chemical Company of Malaysia Berhad (“CCMB”) group of companies, the position of the Chief Executive Officer was re-designated to Group Managing Director and Leonard Ariff bin Abdul Shatar was appointed as the Group Managing Director with effect from 28 December 2017.

Risk Management

The Board confirms that as an integral part of the system of internal control, there is an ongoing group-wide risk management process for identifying, evaluating and managing the significant risks faced by CCM Duopharma. Risk management is practised within CCM Duopharma on an iterative basis. All new and major investments have to observe a process approval that includes an assessment of the associated risks. During the year under review, CCM Duopharma adopted CCMB Group’s Risk Management Manual and Guidelines, which is based on ISO 31000, premised on international guidelines for managing risk to ensure that the risk management process is consistent across the CCMB Group.

Risk owners across CCM Duopharma define, highlight, report on and manage the key business and operational risks anticipated by them, and the process is subjected to regular review by the then Audit and Risk Management Committee (“ARMC”) and the Board.

CCM Duopharma had an ARMC to provide oversight and added impetus to the risk management process. Following the aforesaid demerger, the Audit and Risk Management Committee was reconstituted to become the Audit and Integrity Committee and a newly formed Risk Management Committee with effect from 28 December 2017. The newly formed Risk Management Committee takes over the oversight function of CCM Duopharma risk management.

Management from each business or operations area conduct risk assessments to identify the risks relating to their areas of supervision and control, analyse the likelihood of these risks occurring and the consequences if they do occur and evaluate the risk level by comparing against the approved risk criteria, as well as determine the actions being and/or to be taken to manage these risks to an acceptable level. The risk profiles and risk treatment measures determined from this process are documented in risk registers with each business or operations area having its respective risk register.

Prior to the completion of the aforesaid demerger, the overall process was facilitated by the CCMB Group's Risk Management Department. Post-demergers and with effect from 28 December 2017, the process will be facilitated by the CCM Duopharma Group Risk Management Department.

Prior to the demerger, Management had previously liaised and maintained regular communication and consultation with the CCMB Group Risk Management Committee which also facilitates risk analysis of strategic business objectives, operational initiatives and emerging issues in the Group.

KEY ELEMENTS OF THE GROUP’S SYSTEM OF INTERNAL CONTROLS

In 2017, the Board, through the Audit & Risk Management Committee (“ARMC”) had approved a Management Control Policy which dictates the responsibilities of the ARMC, the Management and the Internal Audit function with regards to internal controls. Following the aforesaid demerger, the ARMC has now been reconstituted as the Audit and Integrity Committee (“AIC”) with effect from 28 December 2017.

The AIC is responsible for monitoring, overseeing and evaluating the duties and responsibilities of Management, the internal and external auditors as those duties and responsibilities relate to CCM Duopharma Group's processes for controlling its operations. The AIC is also responsible for determining that all major issues reported by the Group Internal Auditor, the external auditors and other outside advisors have been satisfactorily resolved. Finally, the AIC is responsible for reporting to the Board of Directors all important matters pertaining to CCM Duopharma Group's controlling processes.

Management is entrusted with the responsibility of establishing an internal control framework with the objective of controlling the operations of CCM Duopharma Group in a manner which provides the Board of Directors with reasonable assurance that the control objectives will be achieved.

The internal audit function is entrusted with the responsibility for ascertaining that the ongoing processes for controlling operations throughout CCM Duopharma Group are adequately designed and are functioning in an effective manner. The Group Internal Auditor is also responsible for reporting to Management and the AIC on the adequacy and effectiveness of CCM Duopharma Group's systems of internal control, together with ideas, counsel and recommendations to improve the systems.

The key elements of CCM Duopharma Group's system of internal controls are described below:-

Board Committees

The delegation of responsibilities to the various committees of the Board of Directors is clearly defined. At present, the committees which are established are the Audit and Integrity Committee, Risk Management Committee ("RMC") and Nomination and Remuneration Committee ("NRC").

Assignment of Authority and Responsibility

Clearly defined lines of authority within CCM Duopharma Group's organisation structure have been established to facilitate the supervision and monitoring of conduct and operations of individual business units and support services departments. The Board has approved a defined and documented Limits of Authority ("LOA") which is used consistently throughout CCM Duopharma Group. The LOA specifies clear division and delegation of responsibilities from the Board to the Board Committees and to members of Management and the authorisation levels of various aspects of operations. These are regularly reviewed and updated to resolve operational effectiveness and challenges and to reflect changing risks. Additionally, at the then holding company level, the CCMB Group Management and the Finance and Investment Committee of CCMB provided added assurance to the board on the feasibility evaluation of project/investment proposals and subsequent evaluation of the progress and results of endorsed project/investment through a process of due scrutiny.

Planning, Monitoring & Reporting

CCM Duopharma Group undertakes a strategic and budgeting planning process annually, to establish plans and targets against which performance is monitored. These business plan and budgets are subjected to evaluation and assessment by CCM Duopharma Group's Senior Management Group and the AIC before it is recommended to the Board for approval. Monthly review is carried out by the Management to ensure that the businesses are operating according to the plans, as well as to monitor adherence to the internal control procedures established. Management reports are presented to the Board each quarter providing financial information including key performance and risk indicators. The information is reviewed by the AIC before it is presented to the Board for consideration and approval.

Policies & Procedures

There are policies and procedures in place to ensure compliance with controls, and relevant law and regulations. These policies and procedures are periodically reviewed and updated to reflect changes in business structure and processes. In various instances, these documents form an integral part of the Integrated Quality Management Systems ("IQMS").

CCM Duopharma Group has implemented an Enterprise Resource Planning system ("ERP") as part of CCM Duopharma Group's initiative to establish best practices across key business functions promoting greater visibility, transparency and efficiency.

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Annual assurance is provided by the Group Managing Director and Chief Financial Officer of CCM Duopharma to the Board on the adequacy and effectiveness of controls in the business processes. The Senior Management Team likewise provides annual assurance to the Group Managing Director on the said matters.

Business Continuity Management (“BCM”)

Business Continuity Management (“BCM”) is a holistic management process that allows the CCM Duopharma Group to recover and re-establish the delivery of services or products at acceptable predefined levels following a disruptive event. BCM plays an important role to prevent operational interruption, delays in responding to customer requests and inability to process transactions in a timely manner. In today's global marketplace the definition of a disaster has significantly changed; no longer are disasters only discussed in terms of hurricanes, fires or human errors, but also our ability to remain connected with our supply chain and customers. The crucial role of BCM is to assist CCM Duopharma Group to be resilient, to recover to a state of “Business as Usual”, if any of these events stated above occurs.

In the event of disruptive incidents such as large scale natural disaster, major fire, flood or social unrest, the established framework of BCM will be used to guide the CCM Duopharma Group to mitigate and respond to the incident.

The BCM team consists of representatives from Site Emergency Response Plan, Manufacturing, Technical, Supply Chain, Finance, HR and Commercial. Additional help from internal and external sources will be called in to join the team if the disruptive incident requires additional expertise.

BCM provides the CCM Duopharma Group with a firm strategy to handle any situation in any foreseeable circumstance and maintains continuity of operations and service delivery to meet the demand of the market. It also retains the confidence of the shareholders customers towards our product quality. BCM provides a competitive advantage by preventing significant harm to our corporate image, loss of customer and damage to reputation. Business continuity helps mitigate business risks and financial exposures. As a whole, we could conclude that BCM is the way to move forward as the global market changes consistently.

The framework will be reviewed regularly by the BCM Team to ensure adequacy and efficacy.

Code of Conduct

CCM Duopharma adopted the CCMB Group's Code of Conduct, which incorporates the vision, mission and core values. The Code of Conduct also embodies several of the principles contained in various policies adopted by CCMB Group; and gives guidance on the application of the core values to the CCMB Group's businesses and activities.

Amongst the policies included in the Code of Conducts are Conflict of Interest, Anti- Bribery and Corruption, Gift and Entertainment, Competition Law, Securities and Insider Trading, Risk Management, Information Communication Technology, Intellectual Property and Innovation, Quality and Halal policies.

The Code of Conduct also includes the Whistle Blowing Policy, which aims to encourage the employees to feel confident in raising serious legitimate concerns and to provide a formal channel for them to raise these concerns and receive feedback on any actions taken. The Policy also provides assurance that the whistle blower will be protected from possible reprisals or victimisation if they have a reasonable belief that they have made any disclosure in good faith. A whistleblowing hotline has been established to further facilitate the employees and external parties to raise their concerns on possible misconduct or violation of rules and regulations.

Human Resource Management

Key Performance Indicators measured through the Performance Management System, are used to measure the achievement of staff in achieving it's business and operational objectives. To enhance the competencies of the CCM Duopharma Group's talent pool, staff are kept updated with required training programmes ensuring their capabilities to carry out duties and responsibilities towards achieving CCM Duopharma Group's objectives.

To ensure unsatisfactory performance and workplace conflicts are properly dealt with, CCM Duopharma Group has in place guidelines for handling misconduct and disciplinary matters which include breach of integrity and other misconduct which do not comply with the terms and conditions of service, whether expressed or implied.

Internal Audit

CCM Duopharma Group Internal Audit and Integrity (“GIA”) function independently reviews the adequacy and integrity of the system of internal control in managing the key risks, and reports accordingly to the AIC on a quarterly basis. Where weaknesses have been identified as a result of the reviews, improvement measures are recommended to strengthen controls; and follow-up audits are conducted by the GIA to assess the status of implementation thereof by management. In carrying out its work, GIA focuses on areas of priority as directed and approved by the AIC.

The Board remains committed towards maintaining a sound system of internal control and believes that a balanced achievement of CCM Duopharma Group’s business objectives and operational efficiency can be attained. CCM Duopharma Group continues to take measures to further strengthen the internal control environment.

BOARD’S ASSESSMENT

The Board is of the view that CCM Duopharma’s overall risk management and internal control system is operating adequately and effectively, in all material aspects, and have received the same assurance from both the Group Managing Director and Chief Finance Officer of CCM Duopharma Group.

The Board confirms that the risk management process in identifying, evaluating and managing significant risks faced by CCM Duopharma has been in place throughout 2017 and is up to date at the point of approval of this statement.

For the financial year 2017, the Board is of the view that the system of internal controls was adequate and effective and, has not resulted in any material loss, contingency or uncertainty that would require disclosure in the Annual Report 2017.

REVIEW OF STATEMENT BY EXTERNAL AUDITORS

The external auditors have reviewed this Statement on Risk Management and Internal Control pursuant to the scope set out in Audit and Assurance Practice Guide (“AAPG”) 3 (previously, Recommended Practice Guide (“RPG”) 5 (Revised 2015)), *Guidance for Auditors on Engagements to Report on the Statement on Risk Management and Internal Control included in the Annual Report* issued by the Malaysian Institute of Accountants (“MIA”) for inclusion in the annual report of CCM Duopharma Group for the year ended 31 December 2017, and reported to the Board that nothing has come to their attention that cause them to believe that the statement intended to be included in the annual report of CCM Duopharma Group, in all material respects:

- (a) has not been prepared in accordance with the disclosures required by paragraphs 41 and 42 of the Statement on Risk Management and Internal Control: Guidelines for Directors of Listed Issuers, or
- (b) is factually inaccurate.

AAPG 3 does not require the external auditors to consider whether the Directors’ Statement on Risk Management and Internal Control covers all risks and controls, or to form an opinion on the adequacy and effectiveness of CCM Duopharma Group’s risk management and internal control system including the assessment and opinion by the Board of Directors and management thereon. The auditors are also not required to consider whether the processes described to deal with material internal control aspects of any significant problems disclosed in the annual report will, in fact, remedy the problems.

The statement has been approved by the Board of Directors at its meeting on 27 March 2018.