

Report of the Audit and Risk Management Committee

INTRODUCTION

The Board of Directors of CCM Duopharma Biotech Berhad (“the Company”) is pleased to present the report on the Audit and Risk Management Committee (“ARMC” or “Committee”) for the financial year ended 31 December 2014.

COMPOSITION OF AUDIT AND RISK MANAGEMENT COMMITTEE AND MEETINGS

For the financial year ended 31 December 2014, the composition of the ARMC stood at four (4) members of whom three (3) are Independent Directors. On 26 February 2014, Dato’ Mohamad Kamarudin bin Hassan was appointed as the fourth (4th) member of the ARMC. The current composition of the ARMC stands at four (4) members of whom three (3) are Independent Directors.

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

Members of ARMC	No. of Meetings Attended
Dato’ Haji Ghazali bin Awang Chairman, Senior Independent Non-Executive Director	6/6
Tan Sri Dato’ Dr. Jegathesan a/l N.M. Vasagam @ Manikavasagam Member, Independent Non-Executive Director	6/6
Datuk Alias bin Ali Member, Non-Independent Non-Executive Director	6/6
Dato’ Mohamad Kamarudin bin Hassan Member, Independent Non-Executive Director (appointed w.e.f. 26 February 2014)	5/5

TERMS OF REFERENCE

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

Membership

- The Committee shall be appointed by the Board of Directors and shall all consist of Non-Executive Directors, majority of whom are independent;
- The Chairman of the Committee shall be approved by the Board and shall be an Independent Non-Executive Director;
- At least one (1) member of the Committee:-
 - (i) must be a member of the Malaysian Institute of Accountants (MIA); or
 - (ii) if not a member of MIA:-
 - he must have at least three years of working experience; and
 - he must have passed the examination specified in Part I of the 1st Schedule of the Accountants Act 1967; or
 - he must be a member of one of the Associations of Accountants specified in Part II of the 1st Schedule of the Accountants Act 1967.
 - (iii) fulfills such other requirements as prescribed or approved by the Exchange.

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Meetings

- Meetings shall be held not less than four (4) times a year;
- The quorum shall be two (2) members who must be Independent Directors;
- The Chief Executive Officer, Chief Financial Officer, the Group Internal Auditor (“GIA”) and the Group Risk Management Officer shall normally be invited to attend the meeting;
- Any other Board members and any other representatives as deemed necessary shall be invited to attend the meeting;
- The Committee shall meet with the external auditors, internal auditors or both, in the absence of other directors and employees of the listed issuer at least twice a year or whenever deemed necessary;
- The Secretary to the Committee shall be the Group Company Secretary or her representative.

Authority

The ARMC is authorised by the Board:-

- (i) to seek any information relevant to its activities from employees of the Company;
- (ii) to engage the necessary resources required to carry out its duties and to obtain independent professional advice it considers necessary;
- (iii) to have full and unlimited access to any information and documents pertaining to the Company.

In addition to the above, the ARMC will keep under review the effectiveness of the Company’s Risk Management system, taking into account:-

- (i) the development and maintenance by Management of a comprehensive Risk Management framework;
- (ii) the Company’s culture of Risk Management (including awareness, education and training for all levels of staff);
- (iii) feedback from Management and the External Auditors on the effectiveness of Risk Management system;
- (iv) changes to the Company’s risk profiles, arising from the material, financial and non-financial risks facing the divisions and/or any part of the Company;
- (v) the impact and mitigation of significant risk events.

Responsibilities

(a) Audit Function

- (i) To consider and recommend to the Board on the nomination, appointment and termination of external auditors, as well as the audit fee;
- (ii) To discuss with the external auditor before the audit commences, the nature and scope of the audit, and ensure co-ordination where more than one audit firm is involved;

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- (iii) To review the quarterly and year-end financial statements of the Board, focusing particularly on:-
 - any change in accounting policies and practices;
 - significant adjustments arising from the audit;
 - the going concern assumption; and
 - compliance with accounting standards and other legal requirements.
- (iv) To discuss problems and reservations arising from the interim and final audits, and any matter the external auditor may wish to discuss (in the absence of Management where necessary);
- (v) To review the external auditor's management letter and management's response;
- (vi) To review the internal audit and risk management reports and where necessary, ensure that appropriate actions are taken on the recommendations of the internal audit and risk management function;
- (vii) To do the following, in relation to the internal audit functions:-
 - (a) Review and approve the annual audit plan;
 - (b) Review the adequacy of the scope, functions, competency and resources of the internal audit and risk management functions and that they have the necessary authority to carry out its work;
 - (c) Review and endorse the audit charter which outlines the purpose, authority and responsibility of the GIA;
 - (d) Review the internal audit and results of these activities and where necessary, ensure that appropriate actions are taken on the recommendations of these functions;
 - (e) Review the annual budget for GIA;
 - (f) Review any appraisal on performance as well as competency of the GIA functions;
 - (g) Take cognisance of resignations of internal audit staff/members and provide the resigning staff/member an opportunity to submit his reasons for resigning.
- (viii) To consider any related-party transactions that may arise within the Group;
- (ix) To consider the major findings of internal investigations and Management's response; and
- (x) To consider other matters as required by the Board.

(b) Risk Function

- (i) To set risk appetite, approve frameworks, policies and processes for managing risk, and accept risks beyond the approval discretion provided to the Management;
- (ii) To recommend to the Board, the Company's risk-reward strategy, monitor risk profile, risk appetite and ensure that the Company maintains an appropriate balance of Risk Transfer and Risk Control measures to address business risks;
- (iii) To monitor changes anticipated for the economic and business environment, including consideration of emerging risks, legislative or regulatory changes, major initiatives and other factors considered relevant to the Company's risk profile;

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- (iv) To receive reports from the Group Risk Department (“GRD”) which have been duly reviewed/deliberated by respective Management and Risk Committees concerning:-
 - (a) Risk Management policies, strategies, processes and controls, status of the implementation and effectiveness thereof, within the divisions and, if thought fit, approve or vary them;
 - (b) Alignment or integration of risk management activities with other management activities/tools which include formulation of strategies, development of business plans, budgeting, forecasting and performance review, within the Company; and
 - (c) Identification and management of enterprise risks which could impact the achievement of business objectives.
- (v) Review any appraisal on performance as well as competency of the GRD functions;
- (vi) Take cognisance of resignations of risk management staff/members and provide the resigning staff/member an opportunity to submit his reasons for resigning.

Activities during the year

- (i) Reviewed and approved the Company’s internal audit plan for the year;
- (ii) Reviewed the status report of internal audit and risk management activities for the year to ensure that all the planned activities for the Company were properly carried out;
- (iii) Reviewed the summary of the internal audit and risk assessment reports prepared by Group Internal Auditor and Group Risk Department Officers and monitor the status of corrective actions taken by the Management to ensure all audit and risk management issues and concerns are adequately resolved on timely basis;
- (iv) Reviewed the Company’s Risk Profile and the management process for identifying, evaluating and managing the significant risks faced by the Company;
- (v) Reviewed the management letters, reports and fees of the external auditors;
- (vi) Evaluated the performance of the external auditors and made recommendations to the Board on their re-appointment and audit fees;
- (vii) Reviewed and recommended the quarterly reports in respect of the results to the Board for subsequent release to Bursa Malaysia;
- (viii) Reviewed and recommended the Annual Report of the Company prior to the submission to the Board for consideration and approval;
- (ix) Reviewed the related party transactions entered into by the Company and the disclosure of such transactions in the Annual Report and circular on recurrent related party transactions;
- (x) Reviewed and recommended to the Board dividends to be declared to the Shareholders of the Company;
- (xi) Reviewed and recommended bad debts to be written off and disposal of fixed assets to the Board of Directors for consideration and approval; and
- (xii) Reviewed and recommended to the Board the proposals related to the business restructuring of the Pharmaceuticals Division including proposed acquisitions and rights issuance, and submissions to Bursa Malaysia and/or other authorities thereto.

STATEMENT ON INTERNAL AUDIT FUNCTION

The audits on the Company's operations were undertaken by the Group Internal Audit of its holding company. The Group Internal Audit has undertaken regular and systematic risk-based assessments of the internal control of the Company so as to provide reasonable assurance that such systems are adequate and continue to operate effectively in managing the key risks of the Company.

The total expenditure incurred for Group Internal Audit function for the financial year, which amongst others includes departmental expenditures such as office running expenses, training expenses, travelling expenses, staff remuneration, etc. is estimated at RM172,000.00.

Activities during the year

The Group Internal Audit had conducted various operational audits as well as follow up audit exercises for the Company in accordance with the ARMC's approved Audit Plan for 2014. Among the areas covered were the operations of Human Resource Management, Logistics Management, Finance and Recurrent Related Party Transactions.

STATEMENT ON RISK MANAGEMENT FUNCTION

The Company has a dedicated in-house risk management function at CCM Group level to facilitate the overall risk management process within the Company. Significant risks are identified, assessed, and reported to the ARMC throughout the year on a quarterly basis based on the Group's approved risk management framework. The quarterly risk reports highlight the Company's Risk Profile to enable Management to focus on key risks affecting the Company's businesses and operations and the system of internal control necessary to manage such risks.

Activities during the year

In 2014, risks were fully identified and reported by risk owners via the online ERM system "RiSmart". The risk information was reviewed by CCM Group Risk Management Department at holding company level and then reported to the ARMC. The reporting captured updates of risk decisions made based on defined risk appetite, controls and treatment measures undertaken by risk owners.

Quarterly reports to the ARMC highlighted the Company's Risk Profile by reviewing the significant risks comprising Strategic, Operational and Emerging risk categories. The review included movements from Gross to Residual Risk Levels which monitors Management's progress in implementing controls and assessing the effectiveness of measures in mitigating the risk.

In summary, the range of risk issues deliberated by the Company during 2014 included revenue growth, working capital management, operational efficiency, business expansion through sales and marketing, sustainability, human capital development, employee engagement, strategic directions, corporate exercises and regulatory compliance.