

REPORT OF THE AUDIT AND INTEGRITY COMMITTEE

The Board of Directors of CCM Duopharma Biotech Berhad (“CCM Duopharma”) is pleased to present the report on the Audit and Integrity Committee (“AIC” or “Committee”) and its activities during the financial year ended 31 December 2017.

COMPOSITION OF AUDIT AND INTEGRITY COMMITTEE AND MEETINGS

Following to the demerger on 28 December 2017, the Audit and Risk Management Committee (“ARMC”) was reconstituted to Audit and Integrity Committee (“AIC”) with Razalee bin Amin, Dato’ Mohamad Kamarudin bin Hassan and Zaiton binti Jamaluddin continuing to be the Committee members of AIC. As at the end of the financial year 2017, the composition of the AIC stood at three (3) members, all of whom are independent.

A total of five (5) 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 (subsequently reconstituted as AIC)	No. of Meetings Attended
Razalee bin Amin <i>Chairman, Independent Non-Executive Director</i>	5/5
Dato’ Mohamad Kamarudin bin Hassan <i>Member, Senior Independent Non-Executive Director¹</i>	5/5
Zaiton binti Jamaluddin <i>Member, Independent Non-Executive Director</i>	5/5

Note:

¹ Dato’ Mohamad Kamarudin has been appointed as the Senior Independent Non-Executive Director with effect from 28 December 2017 following the re-designation of Tan Sri Datin Paduka Siti Sa’diah binti Sh Bakir as the Non-Independent Non-Executive Chairman of CCM Duopharma Biotech Berhad.

Details on the Terms of Reference of the Audit and Integrity Committee can be found on CCM Duopharma’s website at www.ccmduopharma.com.

Summary of Work Done During the Year

Below is a listing of the work done by the ARMC (subsequently reconstituted as the AIC) up to 31 December 2017 in discharging and meeting their functions, duties and responsibilities with regards to financial reporting and internal controls:

- i. Reviewed the Statement of Corporate Governance, Statement of AIC and Statement on Risk Management and Internal Control (“SORMIC”) prior to approval by the Board for inclusion in the 2016 Annual Report. The SORMIC was supported by the Annual Assurance Statement on Risk Management and Internal Controls, which were signed off by the Group Managing Director and the Chief Financial Officer.
- ii. Reviewed and recommended the Annual Report of CCM Duopharma prior to the submission to the Board for consideration and approval.
- iii. Reviewed and approved CCM Duopharma’s internal audit plan and budget for the year.
- iv. Reviewed the status report of internal audit activities for the year to ensure that all the planned activities for CCM Duopharma were properly carried out.

- v. Reviewed the summary of the internal audit reports prepared by Group Internal Auditor and deliberated on significant audit issues, audit recommendations, management action plans and the agreed timeline. Where necessary, provided input on improvement of processes and operations.
- vi. Monitored the status of corrective actions taken by the Management to ensure all audit issues and concerns are adequately addressed within the stipulated timeline.
- vii. Reviewed the internal audit report on corporate governance, work progress and Group Internal Auditor KPI Scorecard for the year.
- viii. Held private meetings and discussions with the Group Internal Auditor on significant audit and internal control matters.
- ix. Reviewed the external auditors' audit plan and engagement strategy for the financial year ended 31 December 2017, covering the audit focus area, which also included a review on the IT systems, audit materiality and methodology.
- x. Reviewed the external auditors' report for the financial year ended 31 December 2017, including matters relating to adjustments arising from the external audit review and adequacy of disclosures, prior to making recommendation to the Board for approval. There is no significant adjustments were required to the financial statements, which is presented in a true and fair manner.
- xi. Deliberated on the observations highlighted by the external auditors, and the respective management action plans and status updates.
- xii. Held private meetings and discussions with the external auditors to allow for discussions on matters of concern.
- xiii. Evaluated the performance and independence of the external auditors and made recommendations to the Board on their re-appointment and audit fees.
- xiv. Reviewed the quarterly reports in respect of the results to ensure compliance to the Malaysian Financial Reporting Standards and regulatory requirements and recommended to the Board for subsequent release to Bursa Malaysia.
- xv. Reviewed the notes to the draft announcements of the audited and unaudited financial statements to Bursa Malaysia, to ensure compliance to the regulatory requirements.
- xvi. Reviewed the related party transactions entered into by CCM Duopharma and the disclosure of such transactions in the annual report and circular on recurrent related party transactions.
- xvii. Reviewed and recommended to the Board dividends to be declared to the Shareholders of CCM Duopharma.
- xviii. Reviewed and recommended write-off of fixed assets to the Board of Directors for consideration and approval.
- xix. Monitored the progress and deliberated on the way forward of CCM Duopharma's strategic projects and material litigation cases.

STATEMENT ON INTERNAL AUDIT FUNCTION

The audits on CCM Duopharma's operations were undertaken by the internal audit function of its then holding company. The Head of the Group Internal Audit and Integrity function ("GIA") reports directly to the AIC to promote independence and to enable it to maintain objectivity in rendering unbiased judgements.

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(i) Reporting Line

The internal audit function's purpose, authority and responsibilities are stated in the Internal Audit Charter, which is approved by the AIC. The internal audit function is responsible for undertaking regular and systematic risk-based assessments of the internal control of CCM Duopharma so as to provide reasonable assurance that such systems are adequate and continue to operate effectively in managing the key risks of CCM Duopharma.

(ii) Audit Planning and Work Done

The GIA formulated the Annual Internal Audit Plan based on the risk assessment of the business operations and the audit cycle, which was then approved by the AIC. GIA adopts the COSO Internal Control Framework in conducting the audit assignments, which covered 5 elements of internal controls, namely Control Environment, Risk Assessment, Control Activities, Information and Communication and Monitoring.

In 2017, the GIA had issued 17 audit reports which covered operational, amongst others, Project Management, Inventory Management, Procurement, Production Engineering, Human Resource, Sales & Marketing, CCM Pharmaceuticals (S) Pte. Ltd. and Recurrent Related Party Transactions. The Internal Audit Reports, which included issues and action plans, were presented to and discussed with Management. GIA subsequently monitored the implementation of the agreed action plans to ensure full compliance. The reports together with follow-up action plans and implementation status were presented to the AIC for their deliberation and subsequent approval.

The performance of the GIA function was presented to the AIC on a quarterly basis.

(iii) Internal Audit Cost

The total expenditure incurred for GIA 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 RM338,000.00.