

# REPORT OF THE AUDIT AND RISK MANAGEMENT COMMITTEE

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 2016.

## COMPOSITION OF AUDIT AND RISK MANAGEMENT COMMITTEE AND MEETINGS

During the financial year ended 31 December 2016, Dato’ Haji Ghazali bin Awang, Tan Sri Dato’ Dr. Jegathesan a/l N.M. Vasagam @ Manikavasagam and Datuk Alias bin Ali resigned/retired from the Committee. They were replaced by Razalee bin Amin and Zaiton binti Jamaluddin. As at the end of the financial year, the composition of the ARMC stood at three (3), all of whom are independent.

A total of five (5) meetings were held during the financial year. The status of membership/directorship and attendance record of each of the members during the year are as follows:

Members of ARMC	No. of Meetings Attended
<b>Razalee bin Amin</b> Chairman, Independent Non-Executive Director <i>(Appointed as Member w.e.f. 1 June 2016 and subsequently, as Chairman w.e.f. 1 September 2016)</i>	2/2
<b>Dato’ Mohamad Kamarudin bin Hassan</b> Member, Independent Non-Executive Director	5/5
<b>Zaiton binti Jamaluddin</b> Member, Independent Non-Executive Director <i>(Appointed w.e.f. 1 September 2016)</i>	1/1
<b>Tan Sri Dato’ Dr. Jegathesan a/l N.M. Vasagam @ Manikavasagam</b> Member, Independent Non-Executive Director <i>(Retired w.e.f. 26 May 2016)</i>	3/3
<b>Datuk Alias bin Ali</b> Member, Non-Independent Non-Executive Director <i>(Resigned w.e.f. 10 August 2016)</i>	2/3
<b>Dato’ Haji Ghazali bin Awang</b> Chairman, Senior Independent Non-Executive Director <i>(Resigned w.e.f. 1 September 2016)</i>	3/4

Details on the Terms of Reference of the Risk Management Committee can be found on the Company’s website at [www.duopharma.com.my](http://www.duopharma.com.my)

# REPORT OF THE AUDIT AND RISK MANAGEMENT COMMITTEE (CONT'D)

## Summary of Work Done During the Year

Below is a listing of the work done by the ARMC in discharging and meeting their functions, duties and responsibilities with regards to financial reporting, internal controls and risk management.

- (i) Reviewed the Statement on Corporate Governance, Report of the Audit and Risk Management Committee, Statement on Internal Audit Function and Statement of 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 Chief Executive Officer and the Chief Financial Officer;
- (ii) Reviewed and recommended the Annual Report of the Company prior to the submission to the Board for consideration and approval;
- (iii) Reviewed and approved the Company's internal audit plan and budget for the year;
- (iv) 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;
- (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 summary of the risk assessment report prepared by the Group Risk Management Department Officer;
- (x) Monitored the status of corrective actions taken by the Management to ensure all risk management issues and concerns are adequately resolved on timely basis;
- (xi) Reviewed the Company's Risk Profile and the management process for identifying, evaluating and managing the significant risks faced by the Company;
- (xii) Reviewed the external auditor's audit plan and engagement strategy for the financial year ended 31 December 2016, covering the audit focus area, which also included a review on the IT systems, audit materiality and methodology;
- (xiii) Reviewed the external auditor's report for the financial year ended 31 December 2016, including matters relating to adjustments arising from the external audit review and adequacy of disclosures, prior to making recommendation to the Board for approval. No significant adjustments were required to the financial statements, which is presented in a true and fair manner;
- (xiv) Deliberated on the observations highlighted by the external auditor's, and the respective management action plans and status updates;
- (xv) Held private meetings and discussions with the external auditors to allow for discussions on matters of concern;

- (xvi) Evaluated the performance and independence of the external auditors and made recommendations to the Board on their re-appointment and audit fees;
- (xvii) Reviewed the quarterly reports in respect of the results to ensure compliance to the Malaysian Financial Reporting Standard and regulatory requirements, and recommended to the Board for subsequent release to Bursa Malaysia;
- (xviii) Reviewed the notes to the draft announcements of the audited and unaudited financial statements to Bursa Malaysia, to ensure compliance to the regulatory requirements;
- (xix) 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;
- (xx) Reviewed and recommended to the Board dividends to be declared to the Shareholders of the Company;
- (xxi) Reviewed and recommended write-off of fixed assets to the Board of Directors for consideration and approval; and
- (xxii) Monitored the progress and deliberated on the way forward of the Company's strategic projects and material litigations cases.

#### **STATEMENT ON INTERNAL AUDIT FUNCTION**

The audits on the Company's operations were undertaken by the internal audit function of its holding company. The Group Internal Auditor reports directly to the ARMC to promote independence and to enable it to maintain objectivity in rendering unbiased judgments.

##### **(i) Reporting Line**

The internal audit function's purpose, authority and responsibilities are stated in the Internal Audit Charter, which is approved by the ARMC and the Board. The internal audit function is responsible for undertaking 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.

##### **(ii) Audit Planning and Work Done**

The Group Internal Audit 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 ARMC. Group Internal Audit 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 2016, the Group Internal Audit had conducted various operational audits on areas, amongst others, Sales, Distribution, Inventory Management, Engineering, Human Resource and Recurrent Related Party Transactions. The Internal Audit reports, which included issues and action plans, were presented to and discussed with Management. Group Internal Audit 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 ARMC for their deliberation and subsequent approval.

The performance of the Group Internal Audit function was presented to the ARMC on a quarterly basis.

# REPORT OF THE AUDIT AND RISK MANAGEMENT COMMITTEE (CONT'D)

## (iii) Internal Audit Cost

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 RM338,000.

## STATEMENT ON RISK MANAGEMENT FUNCTION

There is a dedicated in-house risk management function at the CCM Group level which facilitates the overall risk management process within the Group and the Company. Significant risks are identified, assessed, and reported to the ARMC throughout the year on quarterly basis based on the Group's approved risk management framework.

### Risk Management Framework Review

The Company adopts an Enterprise Risk Management ("ERM") framework which is consistent with the Statement on Risk Management and Internal Control – Guidelines for Directors of Listed Issuers, and Bursa Malaysia's Corporate Governance Guide and in line with ISO 31000, Risk Management – Principles and Guidelines (which is a standard relating to risk management codified by the International Organisation for Standardisation. ISO 31000 provides a standard on the implementation of risk management). The ERM framework defines the policy and objectives and sets the risk reporting structure. The framework structure includes risk profiling of current and historical risk information to anticipate probable future exposures. The framework ties into the Company's governance policies and guidelines. The framework operates within the context of Strategic, Operational, Emerging and Project risks categories.

### Summary of Work done During the Year

In December 2014, the Company had carried out a review on its existing Risk Management Framework. As a result, a 3 year (2015-2017) Risk Management Plan was developed. Based on the plan, 2016 activities focused on "Elevating Understanding" of risk. The following were implemented throughout 2016:

#### A. Elevating Understanding on Risk Management

A formalised Risk and Control Self-Assessment ("RCSA") was carried out; to develop understanding of the importance of risk management and at the same time ensuring appropriate coverage of risk identification, analysis, evaluation and treatment within the Company.

To further enhance risk knowledge in the Company, three personnel (3) attended an external enterprise risk management program that is well recognised internationally. They have completed the program with outstanding results. With this, the Company now have additional number of risk talent.

#### B. Risk Reporting

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.

The key risks for 2016 are in the following areas:

#### **1. Operational Risk**

The management of the operational risk (such as those relating to health and safety, production, distribution, compliance) is closely monitored by respective Risk Owners, with risk mitigation plans proposed and implemented. Risk Owners provide quarterly status report on the mitigation implementation plans for each risks to Group Risk Management Department (“GRMD”) and a summary is presented to ARMC. Furthermore, continuous RCSA activities were conducted to ensure risk principles are in key operational processes and provide reasonable assurance that all risks are identified and addressed.

#### **2. Project Risk**

All projects that require the approval from the CCM Group Finance and Investment Committee (‘FIC’), is subjected to risk assessments, where the risk registers resulting from the assessment together with the mitigation plans are mandatorily tabled as part of the projects’ proposals. Project risk updates post implementations of the projects are tracked and reported as part of the risk management reporting process.

#### **3. Competition Risk**

The Company continue to review current business status against its competitors and market. Strategies are developed, reviewed and updated to ensure its relevance in maintaining CCM’s competitive position. These strategies are explained in the Chief Executive Officer’s operations review.

#### **4. Financial and Liquidity Risk**

The Company is exposed to various financial risks relating to credit, liquidity, foreign currency, interest rates and exchange rates. The Company’s risk management objectives and policies coupled with the required quantitative and qualitative disclosures relating to its financial risks are explained in the financial statements.

### **C. Culture Building**

Risk management culture is continuously inculcated throughout the organisation through continuous monitoring and planned risk review sessions by GRMD. Quarterly meetings with risk coordinator and various group discussion were held to brainstorm on existing and potential risks. Risk management refresher trainings on the use of risk system (RiSmart) were carried out during the year. Feedback from risk owners on how to improve the system was also collected after the training.

As part of risk culture building, the heads of departments signed a risk assurance statement that all risks are identified, addressed and reviewed. The heads of departments provide this assurance every quarter and presented to ARMC.

# REPORT OF THE AUDIT AND RISK MANAGEMENT COMMITTEE (CONT'D)

## D. Emerging Risk Monitoring

Assessment and monitoring of emerging risk was started in April 2016 as part of our commitment towards proactively strengthening controls in the changing business climate. Seventeen emerging risks were taken from Global Risk Report 2016. The report is based on the annual Global Risks Perception Survey, completed by almost 750 members of the World Economic Forum's global multi stakeholder community. News and reports of the selected risks were tracked weekly and mapped against the proximity to the Company and frequency of occurrence. This assessment highlight the emerging risks that may have impact on the Company's businesses and operations to enable Management to proactively develop internal control necessary to manage these risks. From this assessment, the Company had identified the emerging risk of "Water Crisis" may have potential impact on plant operations. Controls were developed to mitigate the risk. This risk is now added into the risk register for continuous monitoring and updates.

# REPORT OF THE NOMINATION AND REMUNERATION COMMITTEE

The Board is pleased to issue the following report on the Nomination and Remuneration Committee (“Committee” or “NRC”) and its activities during the financial year ended 31 December 2016.

## COMPOSITION OF THE NOMINATION AND REMUNERATION COMMITTEE

The Committee consists of three (3) members, all of whom are Non-Executive Directors.

The current composition of the Committee stands at three (3) members, and Tan Sri Siti Sa’diah binti Sh. Bakir is the Chairman and Senior Independent Director.

A total of two (2) meetings were held during the year. The attendance record of each member during the year is as follows:

Members of NRC	No. of Meetings Attended
<b>Tan Sri Siti Sa’diah binti Sh. Bakir</b> Chairman, Senior Independent Non-Executive Director <i>(Appointed w.e.f. 18 May 2016, appointed as Chairman w.e.f. 1 September 2016)</i>	1/1
<b>Dato’ Azmi bin Mohd Ali</b> Member, Non-Independent Non-Executive Director <i>(Appointed w.e.f. 18 May 2016)</i>	1/1
<b>Dato’ Mohamad Kamarudin bin Hassan</b> Member, Independent Non-Executive Director <i>(Appointed w.e.f. 1 September 2016)</i>	1/1
<b>Tan Sri Dato’ Dr. Abu Bakar bin Suleiman</b> Member, Non-Independent Non-Executive Director <i>(Retired w.e.f. 26 May 2016)</i>	1/1
<b>Tan Sri Dr. Jegathesan a/l N.M. Vasagam @ Manikavasagam</b> Member, Independent Non-Executive Director <i>(Retired w.e.f. 26 May 2016)</i>	1/1
<b>Dato’ Haji Ghazali bin Awang</b> Chairman, Senior Independent Non-Executive Director <i>(Resigned w.e.f. 1 September 2016)</i>	1/1

Note: Two meetings were held during the year. There was full attendance for both meetings

# REPORT OF THE NOMINATION AND REMUNERATION COMMITTEE (CONT'D)

## Activities during the Year

During the year, the Committee:

- (i) Reviewed the result of the Board's Effectiveness Assessment (BEA) of the Board of Directors and the Audit and Risk Management Committee for 2015 and recommended improvement plans for the same. For 2016, the NRC was unable to review the BEA of the Board and Audit and Risk Management Committee due to the major changes at the board level. However, NRC had conducted a general assessment and was of the view that all Board and Audit and Risk Management Committee members had carried out their duties in accordance with their terms of reference. The NRC is also satisfied with their duties in accordance with their terms of reference. The NRC is also satisfied with their contribution and commitment at board and board committee meetings;
- (ii) Evaluated, assessed and recommended to the Board, the appointment of Non-Executive Directors of the Company, based on the Company's selection criteria;
- (iii) Reviewed and assessed the composition of Board Committees and recommend to the Board of Directors to fill the seats thereon;
- (iv) Reviewed and recommended the re-election/re-appointment of non-executive directors to the Board;
- (v) Reviewed the succession plan for the Directors of the Company and made the necessary recommendation to the Board on the required mix and skills, knowledge, experience, expertise and diversity among the Board members;
- (vi) Reviewed and recommended to the Board the annual increment and bonus package for non-unionised employees of the Company;
- (vii) Evaluated and recommended candidate for key positions/ Senior Management in the Group to the Board of Directors; and
- (viii) Ensured that all Directors received appropriate continuous training programmes in order to keep abreast with developments in related industries and changes in the relevant statutory requirements.