



## 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 of the Audit and Risk Management Committee (ARMC) for the financial year ended 31 December 2012.

### COMPOSITION OF THE AUDIT AND RISK MANAGEMENT COMMITTEE AND MEETINGS

The current composition of the ARMC stands at three (3) members of whom two (2) are independent.

A total of five (5) meetings were held during the 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

<b>Haji Ghazali bin Awang</b> Chairman, Senior Independent Non-Executive Director	5/5
<b>Tan Sri Dr. Jegathesan a/l N.M. Vasagam @ Manikavasagam</b> Member, Independent Non-Executive Director	5/5
<b>Datuk Alias bin Ali</b> Member, Non-Independent Non-Executive Director	5/5

### TERMS OF REFERENCE

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

#### Membership

- The Audit and Risk Management Committee shall be appointed by the Board of Directors and shall all consist of Non-Executive Directors, a majority of whom are independent.
- The Chairman of the Audit and Risk Management Committee shall be approved by the Board and shall be an Independent Non-Executive Director.
- At least one 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. fulfils such other requirements as prescribed or approved by the Exchange.

#### Meetings

- Meetings shall be held no 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 and the Group Risk Officer shall normally be invited to attend the meeting.



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- 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 Company Secretary.

### Authority

The Audit and Risk Management Committee 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 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 the 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 Company 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 coordination where more than one audit firm is involved;
- 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 Group Internal Audit (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.
- a. Risk Management policies, strategies, processes and controls, status of the implementation and effectiveness thereof, within the Company 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;
  - 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.

#### (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;
- iv. To receive reports from the Group Risk Department (GRD) which have been duly reviewed/deliberated by respective Management and Risk Committees concerning:

#### 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 a 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;



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- vii. Reviewed the quarterly and annual reports of the Company prior to the submission to the Board for consideration and approval;
- viii. 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;
- ix. Reviewed and recommended to the Board dividends to be declared to the Shareholders of the Company.

### STATEMENT ON INTERNAL AUDIT FUNCTION

The audits on the Company's operations are 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.

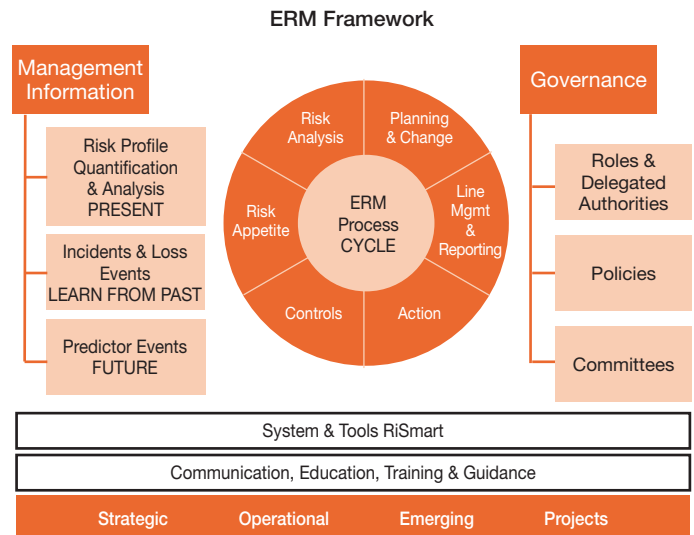
The total expenditure incurred for Group Internal Audit function for the financial year, which amongst others includes departmental expenditures such as office running expenses, training expenses, travelling expenses, staff remuneration, etc. is estimated at RM305,000.00.

### STATEMENT ON RISK MANAGEMENT FUNCTION

The Company has an in-house risk management function which is performed at CCM Group level. This Group Risk Department (GRD) is also represented at the CCM Duopharma Biotech Berhad's Audit and Risk Management Committee (ARMC). Significant risks (defined as Top Risks events with Residual Ranking Level of High to Extreme) identified throughout the year based on the CCM Group's approved risk management framework and processes are reported to CCM Duopharma Biotech Berhad's Audit and Risk Management Committee. The quarterly reports highlighted 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.

### Risk Management Function

The GRD provides risk advisory and supports in all matters of Enterprise Risk Management (ERM). The ERM provides a framework for risk management, which involves defining policy and objectives, lines of responsibilities and accountabilities, identifying particular risk events relevant to the Company and CCM Group's objectives, assessing them in terms of likelihood and magnitude of impact, evaluating them, determining response strategy, and monitoring progress of key risks faced by the Company. The ERM framework is outlined in the below diagram:



The Company's risk management process establishes the context of risk in relation to the Company and CCM Group. The process includes risk identification, analysis, evaluation and treatment with continuous monitoring, review, communication and consultation. Analysis of risks based on likelihood of occurrence and significance of their consequences is consistent with the Risk Ranking of an approved Risk Matrix.

**Risk Matrix**

		CONSEQUENCES →				
LIKELIHOOD ↑	High	High High	Extreme	Extreme	Extreme	Extreme
	Moderate	High	High High	Extreme	Extreme	Extreme
	Minor	Moderate	High	High High	Extreme	Extreme
	Trivial	Moderate	Moderate	High	High High	High High
	Trivial	Minor	Moderate	High	High High	High High

The GRD drives the implementation of the Business Continuity plan for the Company. The Company has appointed a Risk Coordinator to act as risk liaison.

### Risk Management Activities during the Year

In Quarter 2 2012, an automated Enterprise Risk Management system (RiSmart) designed based on ISO 31000, which is the international guideline for managing risk, was introduced within CCM Group and simultaneously at CCM Duopharma Biotech Berhad. After a period of training and awareness, the third and fourth quarter of 2012 risk reporting was carried out via this online system. Risks are being identified by risk owners across various entities, geographical locations (within the Group), functions and by objectives. Risk information is made available to risk owners and senior management with online accessibility and improves the efficiency, consistency and accuracy of reporting.

With implementation of RiSmart in Quarters 3 and 4, the ARMC reviewed top risks comprising of Strategic, Operational and Emerging categories. The review included movements from Gross to Residual Risk Level to monitor Management's progress in implementing controls and assessing the effectiveness of measures to address the sources of risk. The reporting captures updates of risk decisions and risk acceptances made based on defined risk appetite, controls and treatment measures undertaken by risk owners. An audit trail feature within the system monitors risk reporting frequency of risk owners and the risk review feature allows the GRD to provide independent review of any aspects of risks identified.

The framework for risk management includes Risk Quantification and Key Risk Indicators (KRIs) which are areas being pursued by Management towards an integrated Enterprise Risk Management.

Crisis management and business continuity programme is consolidated to a CCM Group level Business Continuity Management framework, policy and guidelines which was launched in August 2012. Ongoing review of Business Impact Analysis (BIA) to determine key issues and exposures was done in the period and more regular and coordinated testing of the Business Continuity Plan is planned in the future.