

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 of the Audit and Risk Management Committee ("ARMC") for the financial year ended 31 December 2011.

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
Haji Ghazali bin Awang Chairman, Independent Non-Executive Director	5/5
Tan Sri Dato' Dr. Jegathesan a/l N.M. Vasagam @ Manikavasagam Member, Independent Non-Executive Director	5/5
Datuk Alias bin Ali 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 Bursa Malaysia.

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 Financial Controller, the Group Chief Internal Auditor and the Group Risk Management Officer shall normally be invited to attend the meeting.

Report of the Audit and Risk Management Committee cont'd

- Any other Board members, the Chief Executive Officer 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 Company at least twice a year.
- 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. the necessary resources required to carry out its duties and to obtain independent professional advice it considers necessary.
- iii. full and unlimited access to any information and documents pertaining to the Company.

Responsibilities

- 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 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;
 - b. Review the internal audit and risk management plans and results of these activities and where necessary, ensure that appropriate actions are taken on;
 - c. Review any appraisal or assessment of the performance of members of the internal audit and risk management functions;
 - d. Approve any appointment or termination of senior staff members of the internal audit and risk management functions;
 - e. Take cognisance of resignations of internal audit and risk management staff members and provide the resigning staff member an opportunity to submit 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 topics as defined by the Board.

Activities during the year

- i. Reviewed and approved the Company's internal audit and risk management 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 Management 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 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 the proposed amendments to the Articles of Association of the Company;
- x. 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 Auditor of its holding company. The Group Internal Auditor 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 RM187,000.

Activities during the year

The Group Internal Auditor had conducted various operational audits as well as follow up audit exercises for the Company in accordance with the Audit and Risk Management Committee's approved Audit Plan for 2011. Among the areas covered were the operations of Sterile and Non-Sterile Production, Technical Support, Engineering, Procurement, Regulatory Affairs and Recurrent Related Party Transactions.

STATEMENT ON RISK MANAGEMENT FUNCTION

The Company has an in-house risk management function which is performed at the Group level. From the beginning of 2011, the key risks which were identified through the risk management process are reported to the CCM Group's Executive Risk Management Committee and CCM Duopharma Biotech Berhad's Audit and Risk Management Committee. The Company's Risk Profiles enable the Audit and Risk Management Committee to focus on the key risks affecting the Company's businesses and operations and the system of internal control necessary to manage such risks.

Activities during the year

From the third quarter of 2011, the Group Risk Management Department had embarked on several new initiatives to improve the Enterprise Risk Management framework for the CCM Group. This includes linking the risks to performance indicators and also quantification of risk exposures of the CCM Group. Moving forward, the implementation of the new improved framework will be carried out in 2012 with the introduction of the automated risk management software, which is expected to improve accuracy, timelines and effective control of risks for the CCM Group. This initiative is based on ISO 31000, which is the international guideline for managing risk.

Report of the Nomination and Remuneration Committee

The Board is pleased to issue the following report of the Nomination and Remuneration Committee ("NRC") and its activities during the financial year ended 31 December 2011.

COMPOSITION OF THE NOMINATION AND REMUNERATION COMMITTEE AND MEETINGS

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

A minimum of two (2) meetings were scheduled for the year. However, only one (1) meeting was held while the determination of urgent matters under the purview of the Committee was implemented via the circularisation of Committee's Circulars.

The attendance record of each member during the year is as follows:

Members of NRC	No. of Meetings Attended
Tan Sri Dato' Dr. Abu Bakar bin Suleiman Chairman, Non-Independent Non-Executive Director	1/1
Tan Sri Dato' Dr. Jegathesan a/l N.M. Vasagam @ Manikavasagam Member, Independent Non-Executive Director	1/1
Haji Ghazali bin Awang Member, Independent Non-Executive Director	1/1

TERMS OF REFERENCE

The terms of reference of the Committee are as follows:-

- i. To recommend to the Board, candidates for all directorships. In making the recommendations, the Committee should also consider candidates proposed by Chief Executive Officer/Managing Director/ Executive Director, and within the bounds of practicability, by any other senior executive, Director or shareholder;
- ii. To recommend to the Board, Directors to fill the seats on Board Committees;
- iii. To review and assess annually the required mix of skills, and experience of the Board, including the core competencies which Non-Executive Directors should bring to the Board to ensure that there is an appropriate balance of skills, experience and expertise among the Board members;
- iv. To assess annually the effectiveness of the Board as a whole, the Committees of the Board and the contribution of each individual Director;
- v. To evaluate the candidates' ability to discharge such responsibilities/functions as expected from Non-Executive Directors, in the case of candidates for position of Independent Non-Executive Directors;

- vi. To establish a remuneration framework for Directors and make recommendations to the Board of Directors on all elements of remuneration, terms of employment, reward structure and fringe benefits for Directors so that it is in line with market and industry practice and is reflective of the contribution of each individual Director;
- vii. To recommend to the Board the remuneration of the Executive Directors, if any or Chief Executive Officer in all its forms;
- viii. To make recommendations to the Board with regards to appointment of new Directors or Directors who are retiring by rotation and should be put forward for re-election. The Nomination and Remuneration Committee had assisted the Board in carrying out an annual review on the balance and size of non-executive participation in the Board as well as establishing procedures and processes for the annual assessment of the effectiveness of the Board as a whole and the contributions of each Director and Board Committee member;
- ix. To provide adequate training and orientation to new Directors as well as continuous training to current directors with respect to business, structure and management of the Group as well as the expectations of the Board;
- x. To ensure an appropriate framework and plan for Board and management succession in the Company;
- xi. To review and recommend to the Board the annual global increment and bonus package for non-unionised employees of the Company;
- xii. To review and recommend to the Board on any new Employees' Share Options Scheme of the Company and/or amendments to the existing scheme.

Activities during the Year

During the year, the Committee:

- i. conducted the Board's Effectiveness Assessment and recommended improvement plans for the same;
- ii. reviewed the Directors' remuneration for the Company and recommend the same for Board's consideration and shareholders' approval at the Annual General Meeting of the Company;
- iii. reviewed and recommend to the Board the annual increment and bonus package for non-unionised employees of the Company;
- iv. ensured that all Directors received appropriate continuous training programmes in order to keep abreast with developments in the financial industry and changes in the relevant statutory requirements;
- v. reviewed and monitored the succession planning in the Company;
- vi. reviewed and recommended to the Board, the appointment and renewal of the contract of service of Chief Executive Officer of the Company;
- vii. Recommended the resignation and appointment of non-executive directors to the Board.

Report on Risk Management

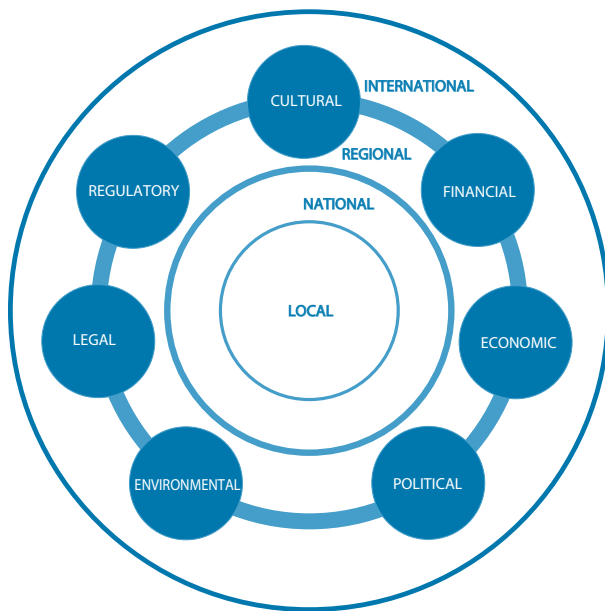
Risk is inherent in all businesses and the effective management of risk is a core competence within the Group.

CCM Duopharma Biotech Berhad relies on the risk management structure of the Group to proactively and efficiently manage the Company's major and key risks. A formal Enterprise Risk Management (ERM) framework was established and it forms an integral part of the Company's corporate governance structure and a key management tool. The Group Risk Management Department ("GRMD") provides the main support to the Risk Management Committee ("the Committee"), chaired by the Chief Executive Officer and comprises Senior Management staff of the Group.

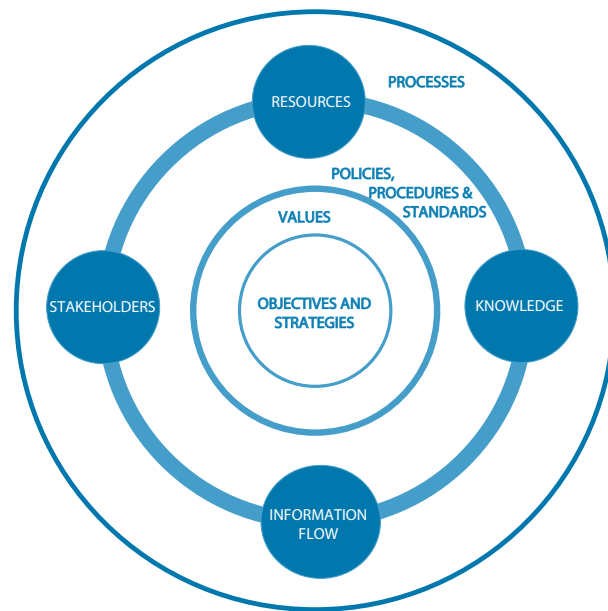
The Company adopts a systematic, structured and disciplined approach to risk management through its integrated ERM. A good ERM framework advocating a holistic, robust, integrated, focused and process-oriented approach is implemented to assist the Company to manage all key businesses and opportunities with the intent of optimising and creating stakeholders' values for the Company.

The underlying principle of ERM is for the risk function to operate as an independent control working in partnership with the business units to provide competitive advantage to the Company. This is also to establish a common risk management language that includes common measures around likelihood, impact and common risk categories.

The risks facing the Company in its businesses and operations can result from internal and external factors, therefore the context within which the Company manages the risks are as follows:-



EXTERNAL CONTEXT



INTERNAL CONTEXT

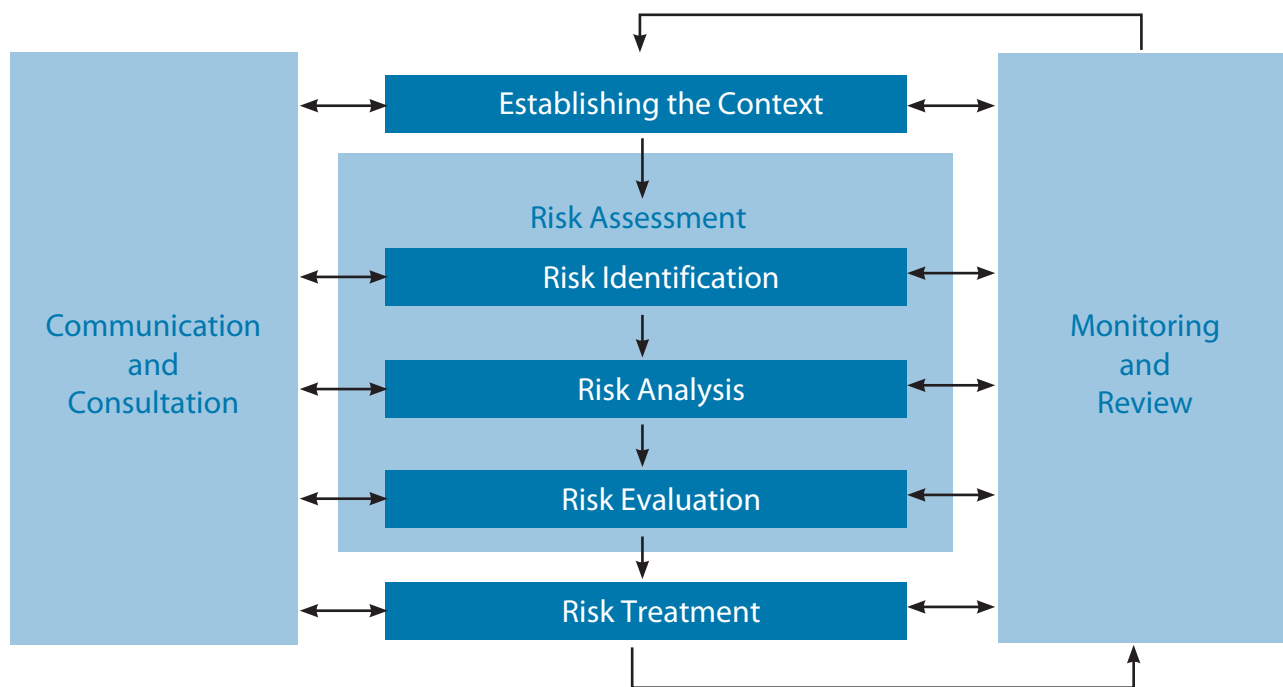
The Company recognises the broad spectrum of risks which it faces along with the opportunities which it seeks in its businesses and operations. It is the strategic objective of the Company to have an effective risk management programme to assess and mitigate these risks and thereby facilitate the Company in meeting all its business objectives, most specifically:-

- To enhance the Company's high standards of corporate governance;
- To safeguard shareholders' investment;
- To safeguard the Company's assets;
- To develop the Company's employees and promote their well-being; and
- To facilitate the Company's long-term growth under all business conditions.

The Company's Annual Risk Management Programme is approved by the Board Audit and Risk Management Committee. The GRMD facilitates the conduct of risk management activities outlined in the Programme which include updating of risk profiles and risk analysis of business or operational initiatives/issues emerging in the Company.

RISK MANAGEMENT PROCESS

The Company's risk management processes involve establishing the context of risk in relation to the Company and thereon risk identification, analysis, evaluation and treatment. Throughout this process, there is continuous monitoring and review; and communication and consultation. The process is illustrated as follows:-



RISK ANALYSIS AND MITIGATION

The identified risks are analysed according to their likelihood of occurrence and significance of their consequences. Based on the risk analyses and subsequent evaluation for treatment priority, the appropriate risk mitigation strategies are devised to treat the risks accordingly. The following illustrates risk profiles in general and describes generally the respective risk mitigation strategies of the Company.

Extreme Risk

The risk must be managed by Senior Management with a detailed action plan or significant Senior Management attention is required. Extensive management of the risk is essential with focus on both reducing the likelihood of the risk and mitigating its consequence. Guidance from Board of Directors may be required where appropriate.

High High Risk

Considerable Senior Management attention is required including specifying management responsibility. Given the significant consequences of the risk, preventive control measures must be maintained effectively with regular assessment thereof in order to maintain the likelihood of the risk occurring at a low level. Ideally, contingency measures should also be maintained to mitigate the consequence of the risk should it eventuate. Guidance from Board of Directors may be required where appropriate.

High Risk

Considerable Senior Management attention is required including specifying management responsibility. Given the significant consequences of the risk, preventive control measures must be maintained effectively with regular assessment thereof in order to maintain the likelihood of the risk occurring at a low level. Ideally, contingency measures should also be maintained to mitigate the consequence of the risk should it eventuate.

Moderate Risk

While the consequence of the risk is insignificant, its high likelihood of occurrence should be reduced. Middle management should monitor the risk; identify its root causes, design and implement corrective measures to reduce its likelihood of occurrence.

Minor Risk

The risk may be managed by routine procedures or may be worth accepting with monitoring by management. The risk may also not need specific application of resources in which case the risk is accepted by management.

Trivial Risk

The risk may be accepted by middle management with notation and reporting.

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

RISK MATRIX

RISK MONITORING AND REPORTING STRUCTURE

The Risk Management Committee called the Divisional Working Risk Management Committee ("DWRMC") has convened in 2011. This Committee is chaired by the CEO and addresses all strategic and related issues that impact the business and the adequacy of the mitigation measures that have been put in place. This Committee consists of all functional heads of CCM Duopharma Biotech Berhad. Effectiveness of the measures taken and follow-up actions are also part of the Agenda.

The strategic risk registers continue to be updated by the risk owners on a quarterly basis. The relevant strategic issues were escalated to the Board Audit and Risk Management Committee meetings for further deliberations and update. This ongoing process helps to further enhance the risk management culture and processes in the Company.