

REPORT OF THE RISK MANAGEMENT COMMITTEE

The Board of Directors of CCM Duopharma Biotech Berhad ("CCM Duopharma") is pleased to present the report on the Risk Management Committee and its activities during the financial year ended 31 December 2017.

COMPOSITION OF RISK MANAGEMENT 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") and a Risk Management Committee ("RMC"). The RMC was set up comprising of Datuk Nik Moustpha bin Hj Nik Hassan as Chairman, Dato' Eisah binti A. Rahman and Zaiton binti Jamaluddin as members, respectively. The Board was of view that the audit and risk were of high importance and warranted the Board to deliberate on them separately. As a result, the Audit and Risk Management Committee was split into two committees. The establishment of the Risk Management Committee focusing on enterprise risk management is important to identify principal risks and ensuring that appropriate systems to manage these risks are in place.

Under the former Audit and Risk Management Committee, the members comprised of three (3) members, all of whom are Non-Executive Directors. They were Razalee bin Amin, Dato' Mohamad Kamarudin bin Hassan and Zaiton bt Jamaluddin. Following the establishment of a separate Risk Management Committee, Datuk Nik Moustpha bin Hj Nik Hassan was appointed as Chairman of the Committee while Zaiton binti Jamaluddin and Dato' Eisah binti A.Rahman were appointed members of the Committee. The current composition of the Committee now stands at three (3) members.

Under the former Audit and Risk Management Committee, 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	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 Director</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.

Following the separation of functions between the audit and risk function, and the formation of the new Risk Management Committee on 28 December 2017, there were no meetings of the Risk Management Committee held before the end of the financial year ended 31 December 2017.

Details on the Terms of Reference of the Risk Management 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 in discharging and meeting their functions, duties and responsibilities with regards to risk management:

- i. Reviewed the Statement of Corporate Governance, Statement of ARMC 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.

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- ii. Reviewed the status report of risk management activities for the year to ensure that all the planned activities for CCM Duopharma were properly carried out.
- iii. Reviewed the summary of the risk assessment report prepared by the Group Risk Management Department.
- iv. Monitored the status of corrective actions taken by the Management to ensure all risk management issues and concerns are adequately resolved on timely basis.
- v. Reviewed CCM Duopharma's Risk Profile and the management process for identifying, evaluating and managing the significant risks faced by CCM Duopharma.

STATEMENT ON RISK MANAGEMENT FUNCTION

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

Risk Management Framework Review

CCM Duopharma 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 CCM Duopharma'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, CCM Duopharma 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, 2017 activities continue to focus on "Elevating Understanding" of risk. The following were implemented throughout 2017:

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 CCM Duopharma.

To further enhance risk knowledge in CCM Duopharma, two (2) personnel attended an external enterprise risk management program that is well recognised internationally. They have completed the program and received certification upon passing the examination. With this, CCM Duopharma now have additional number of risk talents.

B. Risk Reporting

The quarterly risk reports highlight CCM Duopharma's Risk Profile to enable Management to focus on key risks affecting CCM Duopharma's businesses and operations and the system of internal control necessary to manage such risks. Two types of approaches, Top-Down approach and Bottom-Up approach, were applied in order to better identify, manage and report risks. The Top-Down approach identifies and mitigates potential serious risk that may affect CCM Duopharma strategically whilst the Bottom-Up approach focuses on more operational type risks.

The key risks for 2017 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 CCMB 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

CCM Duopharma continues to review current business status against its competitors and market. Strategies are developed, reviewed and updated to ensure its relevance in maintaining CCM Duopharma competitive position. These strategies are explained in the Group Managing Director’s operations review.

4. Financial and Liquidity Risk

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

5. Demerger Risk

The demerger exercise has been identified as one of the key risk. There are various elements involved in the disentanglement process of the two entities. Both long-term and short-term risks has been identified and mitigation implemented that resulted in a smooth transition into the new phase. With the demerger, starting from 2018 onwards, both CCMB and CCM Duopharma will have separate risk registers and risk management teams.

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C. Culture Building

Risk management culture is continuously inculcated throughout the organisation through continuous monitoring and planned risk review sessions by the GRMD. Quarterly meetings with risk coordinators and various group discussion were held to brainstorm on existing and potential risks.

Acknowledging that top management understanding of risk is crucial in managing businesses, an external consultant on risk was appointed to provide insight into Strategic Risk where the Top-Down approach and 2 x 2 risk matrix were introduced and discussed thoroughly.

2017 risk activities closed with a one-month risk campaign. The campaign included the roll out of online posters on the fundamentals of risk. The objective was to provide basic risk information among the staff throughout the organisation in Malaysia and International branches. A survey to assess the effectiveness of this exercise was carried out and showed promising results. It was able to create interest and encouraged discussion on risks among all the staff.

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 is presented to the ARMC.

D. Emerging Risk Monitoring

Assessment and monitoring of emerging risks 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 multistakeholder community. News and reports of the selected risks were tracked weekly and mapped against the proximity to the Organization and frequency of occurrence.

This assessment highlights the emerging risks that may have impact on CCM Duopharma businesses and operations to enable Management to proactively develop internal control necessary to manage these risks. A talk by a consultant on Emerging Risks was held for top management, as part of preparation to developing 2018 objectives. This contributed to better objective setting, risk identification and planning of mitigation strategies to increase the possibility of achieving 2018 objectives.