

REPORT OF THE RISK MANAGEMENT COMMITTEE

The Board is pleased to issue the following report on the Risk Management Committee and its activities during the financial year ended 31 December 2016.

Composition of Risk Management Committee and Meetings

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

A total of four (4) meetings were held during the financial year. The status of directorship and attendance record of each of the members during the financial year were as follows:

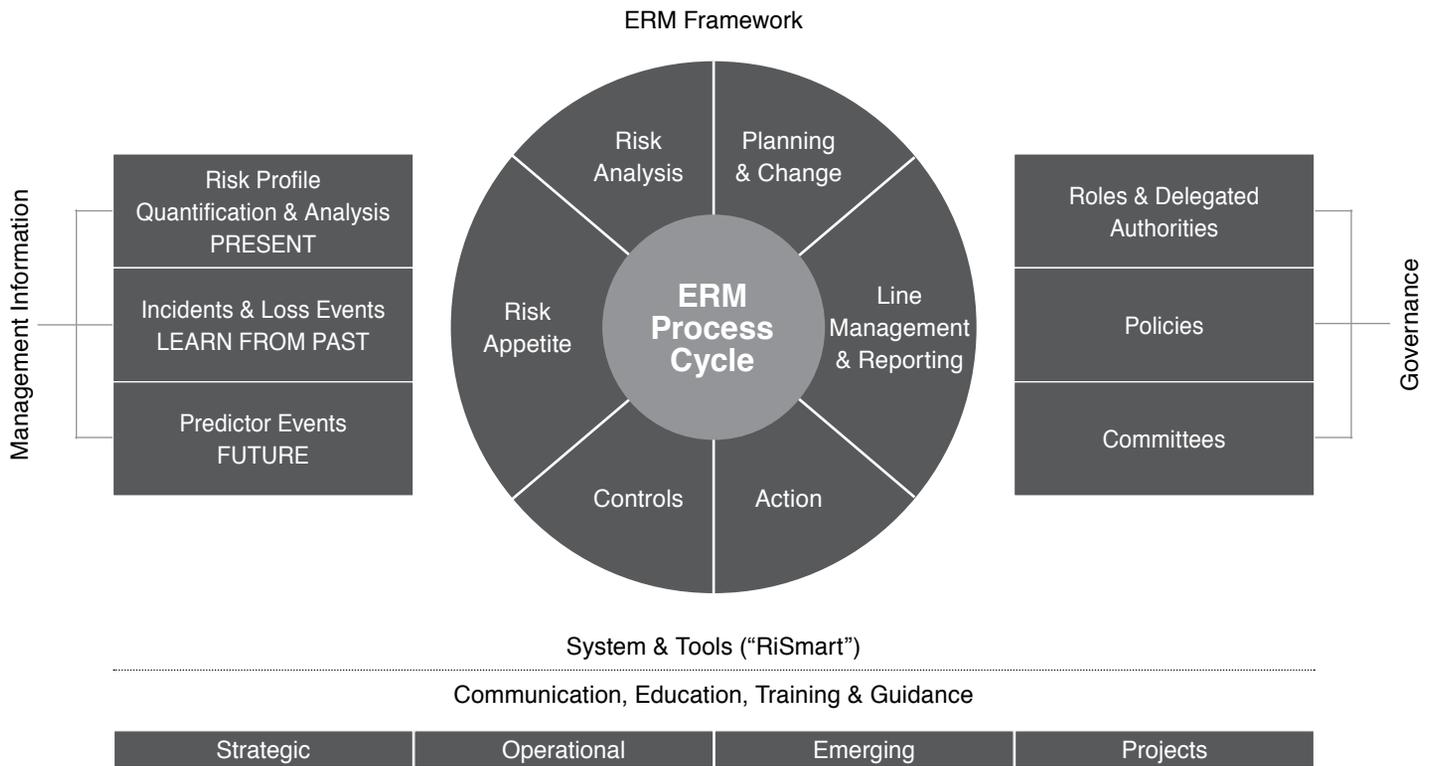
Name of Directors and Status	No. of Meetings Attended
Dato' Azmi bin Mohd Ali Chairman, Non-Independent Non-Executive Director	4/4
Dato' Seri Ir. Dr. Zaini bin Ujang Member, Non-Independent Non-Executive Director	4/4
Tan Sri Siti Sa'diah binti Sh. Bakir Member, Independent Non-Executive Director	3/4

Details on the Terms of Reference of the Risk Management Committee and the details of the Enterprise Risk Management ("ERM") framework and Enterprise Risk Management Reporting Statement can be found on the Company's website.

RISK MANAGEMENT FUNCTION

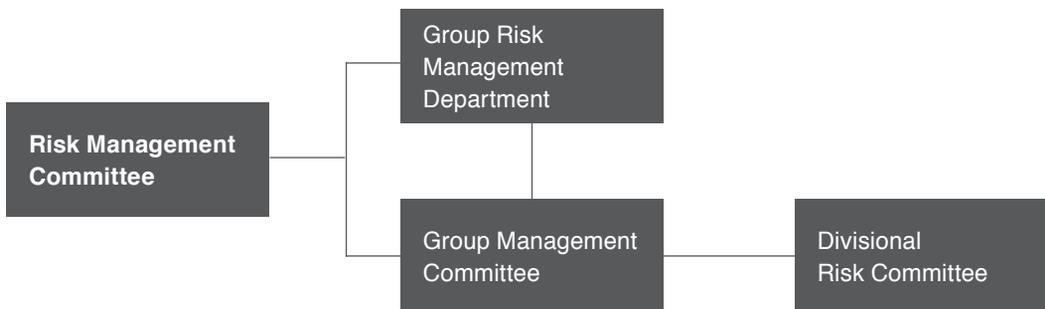
The Group's Risk Management Committee ("RMC") is supported by an in-house risk management function i.e. Group Risk Management Department ("GRMD"). GRMD provides risk advisory and supports various Boards, Group Management and Division Risk Committees in the Group in all matters of Enterprise Risk Management ("ERM").

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 Group's governance policies and guidelines via deliberations at various risk committees. The framework operates within the context of Strategic, Operational, Emerging and Project risks categories.



The RMC receives reports from the Group Management Committee ("GMC") which is chaired by the Group Managing Director and comprises Senior Management of the Group. The GMC is assisted by the Divisional Risk Committees whose role is to identify, mitigate and manage risks within their businesses. The GMC retains the overall risk governance responsibility and risk oversight of the Group and its subsidiaries. The ERM structure is summarised below:

Enterprise Risk Management Reporting Structure



REPORT OF THE RISK MANAGEMENT COMMITTEE (Cont'd)

The Group adopts ISO 31000 guidelines in its risk management processes, whereby the Group has established its external and internal context for its risk management activities, and conducted risk identification, analysis, evaluation and treatment, with continuous monitoring, review, communication and consultation. Risks events are analysed in terms of its likelihood of occurrence and significance of their consequences, where an approved Risk Matrix is used to ensure consistent practice throughout the Group.

Risk Matrix

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

WORK DONE DURING THE YEAR

In December 2014, the Group 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:

Elevating Understanding on Risk Management

A formalised Risk Assessment Workshops were carried out throughout the year; to develop understanding of the importance of risk management and at the same time to ensure appropriate coverage of risk identification, analysis, evaluation and treatment within the Group. In total three (3) Risk and Control Self-Assessment (“RCSA”) were conducted which covers all Divisions; Pharmaceuticals, Chemicals and Polymers.

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

Risk Reporting

Quarterly reports to RMC highlight the Group’s Risk Profile to enable Board and Management to focus on, appraise and consider key risks affecting the Group’s businesses and operations and the system of internal control necessary to manage and mitigate such risks. The RMC reviewed the top risks for the Group and its business divisions. The reports highlight the movements of risk ratings as well as the progress of treatment plans that were identified to mitigate the risks.

The top risks for 2016 were 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 GRMD and a summary is presented to RMC. Furthermore, continuous RCSA activities were conducted in all divisions. RCSA ensure risk principles are in key operational processes and provide reasonable assurance that all risks are identified and addressed.

Chemical facilities are inherently complex with various hazards. These risks are closely managed through the implementation of Safety, Health and Environment (“SHE”) programmes. In respect of this, upon the request from RMC, Chemicals Division presented a study on Environmental and Safety as well as pertinent risk issues and SHE initiatives undertaken in protecting all CCM Chemicals' businesses and sites from potential disaster.

2. Project Risk

All projects that require the approval from the 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 to be tracked and reported as part of the risk management reporting process.

3. Competition Risk

The Group continues 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 Group Managing Director's operations review.

4. Financial and Liquidity Risk

The Group is exposed to various financial risks relating to credit, liquidity, foreign currency, interest rates and exchange rates. The Group'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.

Culture Building

Risk management culture is continuously inculcated throughout the organisation through continuous monitoring and planned risk review sessions by GRMD. Quarterly meetings with all risk coordinators from each division and various group discussion were held to brainstorm on existing and potential risks. Risk management refresher trainings on the use of risk system or RiSmart, were carried out during the year. Feedback from risk owners on how to improve the system was also collected after the training. In total, GRMD conducted three (3) refresher training sessions to cover all Risk Owners in the Group.

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 RMC.

Emerging Risk Monitoring

Assessment and monitoring of emerging risk were 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 Group and frequency of occurrence. This assessment highlighted the emerging risks that may have impact on the Group's businesses and operations to enable Management to proactively develop internal control necessary to manage these risks. From this assessment, Pharmaceuticals Division had identified the emerging risk of “Water Crisis” may have potential impact on the Division's plant operations. Controls were developed to mitigate the risk. This risk is now added into the risk register for continuous monitoring and updates.

With the emergence of digital age, the number of cyber-attack incident is surging worldwide. RMC recognised the need for the Group to be a cyber resilient organisation. In view of this, RMC requested for the Group IT department to present the control and mitigation activities in place and its vulnerability to cyber-attack. The presentation is schedule to be in February next year.