

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

RESPONSIBILITY

The Board is responsible for the review of the adequacy and effectiveness of the Group's system of risk management and internal controls, which includes financial, operational and compliance controls. It should be appreciated that, however effective a system is, it can only provide reasonable and not absolute assurance against material misstatement, loss or fraud. It should be further noted that such a system is designed to manage and mitigate, rather than eliminate, the risks of failure to achieve its business objectives and strategies.

The risk management and control processes are implemented by the Management, led by the Group Managing Director and Senior Management of the Group, who collectively are responsible for good business practices and governance.

RISK MANAGEMENT

The Board confirms that as an integral part of the system of internal control, there is an ongoing Group-wide risk management process for identifying, evaluating and managing the significant risks faced by the Group. Risk management is practised within the Group on an iterative basis. All new and major investments have to observe a process approval that includes an assessment of the associated risks. During the year under review, the Group has adopted a Risk Management Manual and Guidelines, which is based on ISO 31000, premised on international guideline for managing risk, to ensure that risk management process is consistent across the Group.

Risk owners across the business divisions of the Group define, highlight, report on and manage a variety of risks, including business and operational risks anticipated by them, and the process is subjected to regular review by the Board. The Group has a Group Management Committee which is chaired by the Group Managing Director and comprises Senior Management of the Group, to provide oversight and added impetus to the risk management process.

Management from all Business Divisions or major departments conducted risk assessments to identify the risks relating to their areas of supervision and control, analysed the likelihood of these risks occurring and the consequences if they do occur and evaluated the risk level by comparing against the approved risk criteria, as well as determined the actions being and/or to be taken to manage these risks to an acceptable level. The risk profiles and risk treatment measures determined from this process are documented in risk registers with each business or operations area having its respective risk register. The overall process is facilitated by the Group Risk Management Department which is dedicated to this role.

The Group Risk Management Department maintains regular communication and consultation with Management and also facilitates risk analysis including those relating to strategic business objectives, operational initiatives and emerging issues in the Group. It also conducts periodic follow-up in the updating of risk profiles and the implementation of risk treatment measures by Management.

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KEY ELEMENTS OF THE GROUP'S SYSTEM OF INTERNAL CONTROLS

The Board, through the Audit and Compliance Committee, had approved a Management Control Policy which dictates the responsibilities of the Audit and Compliance Committee, the Management and the Internal Audit function with regards to internal controls.

The Audit and Compliance Committee is responsible for monitoring, overseeing and evaluating the duties and responsibilities of Management, the internal and external auditors as those duties and responsibilities relate to the Group's processes for controlling its operations. The Audit and Compliance Committee is also responsible for determining that all major issues reported by the Group Internal Auditor, the external auditors and other outside advisors have been satisfactorily resolved. Finally, the Audit and Compliance Committee is responsible for reporting to the Board of Directors all important matters pertaining to the Group's controlling processes.

Management is charged with the responsibility of establishing an internal control framework with the objective of controlling the operations of the CCM Group of Companies (the "Group") in a manner which provides the Board of Directors with reasonable assurance that the control objectives will be achieved.

The internal audit function is charged with the responsibility for ascertaining that the ongoing processes for controlling operations throughout the Group are adequately designed and are functioning in an effective manner. The Group Internal Auditor is also responsible for reporting to Management and the Audit and Compliance Committee of the Board of Directors on the adequacy and effectiveness of the Group's systems of internal control, together with ideas, counsel and recommendations to improve the systems.

The key elements of the Group's system of internal controls are described below:

Board Committees

The delegation of responsibilities to the various committees of the Board of Directors is clearly defined. At present, the committees which are established are the Audit and Compliance Committee, Nomination and Remuneration Committee, Finance and Investment Committee and Risk Management Committee. There is also an Integrity Committee, which is chaired by a member of the Board, who reports to the Audit and Compliance Committee.

Assignment of Authority and Responsibility

Clearly defined lines of authority within a divisionalised organisation structure have been established to facilitate the supervision and monitoring of conduct and operations of individual business units and support services departments. The Board has approved a defined and documented Limits of Authority ("LOA") which is used consistently throughout the Group. These LOAs specify clear division and delegation of responsibilities from the Board to the Board Committees and to members of Management and the authorisation levels of various aspects of operations. These are regularly reviewed and updated to resolve operational effectiveness and challenges and to reflect changing risks. Additionally, the Group Management Committee also provide added assurance to the Finance and Investment Committee in the feasibility evaluation of project/investment proposals and subsequent evaluation of the progress and results of endorsed project/investment through a process of due scrutiny. The Group Management Committee is chaired by the Group Managing Director and members include the Group Senior Management.

Planning, Monitoring & Reporting

The Group undertakes a strategic and budgeting planning process annually, to establish plans and targets against which performance is monitored. These business plan and budgets are subjected to evaluation and assessment by the Senior Management Group and the Finance and Investment Committee before it is recommended to the Board for approval. Monthly review is carried out by the Divisions and Group Management Committee to ensure that the businesses are operating according to the plans, as well as to monitor adherence to the internal control procedures established. Quarterly financial and operational reports are tabled and presented to the Board providing financial information including key performance and risk indicators. The information is reviewed by the Audit and Compliance Committee before it is presented to the Board for consideration and approval.

Policies & Procedures

There are policies and procedures in place to ensure adequacy of controls, and compliance with relevant law and regulations. These policies and procedures are periodically reviewed and updated to reflect changes in business structure and processes. In various instances, these documents form an integral part of the Integrated Management Systems (“IMS”). Chemical Company of Malaysia Berhad (“CCM Berhad”) IMS is ISO 9001, 14001 and OHSAS 18001 certified namely by Bureau Veritas. Certain companies within the Group have ISO 9001:2008 and MS 49:1994 accreditations for operational purposes. These certifications demonstrate our ongoing commitment to drive for excellence and continuous quality improvement.

The Group has implemented Enterprise Resource Planning System (“SAP”) across its key business activities namely its Pharmaceuticals Division, Chemicals Division, the regional entities (covering 3 countries) and the holding company, CCM Berhad. This is part of the Group's initiative to establish best practices across key business functions promoting greater visibility, transparency and efficiency.

Annual assurance is provided by the Group Managing Director and the Group Chief Operating Officer cum Chief Financial Officer to the Board on the adequacy and effectiveness of controls in the business processes.

Business Continuity Management (“BCM”)

A framework on BCM has been established to ensure continuity of business in the event of a disaster. Recognising the diverse nature of risk and business within the Group, BCM in the Group is a business-owned and business-driven process that establishes a fit-for-purpose strategic and operational framework to proactively improve the business resilience against the crisis and its ability to achieve its key objectives.

The framework includes a Crisis Management component at Group level which provides a rehearsed method of restoring the Group's ability to supply its key products and services to an agreed or acceptable level within an agreed time after a crisis. Processes within the framework also support the objective of protecting the Group's reputation and brand and adds to the overall assurance of achieving the strategic objectives of the Group.

As part of the continuous BCM process, the Group also has a Succession Planning Framework for key positions; which amongst others includes structured plans to improve the Group's bench strength in key positions, talent identification and retention, and strengthening the process in performance management.

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Code of Conduct and Core Values

The Senior Management sets the tone for an effective control environment and culture within the Group through the Group's mission, vision and core values. The Group developed its key pillars for all CCM employees to embrace on, based on the below six (6) core value tenets:

- Passion – Inspire and energise to be the best
- Excellence – consistently deliver outstanding performance
- Teamwork – work as one
- Integrity – being honest and ethical
- Responsible – being accountable for our actions
- Respect – value differences

The importance of the shared values is manifested in the Group's Code of Conduct, which incorporates the CCM's vision, mission and core values. The Code of Conduct also embodies several of the principles contained in various policies adopted by CCM; and gives guidance on the application of the core values to the CCM Group's businesses and activities.

Amongst the policies included in the Code of Conducts are Conflict of Interest, Anti-Bribery & Corruption, Gift & Entertainment, Competition Law, Securities & Insider Trading, Risk Management, Information Communication Technology, Intellectual Property, Sustainability, Quality and Halal policies.

The Code of Conduct also includes the Whistle-Blowing Policy, which aims to encourage the employees to feel confident in raising serious concerns and to provide a formal channel for them to raise these concerns and receive feedback on any actions taken. The Policy also provides assurance that the whistleblower will be protected from possible reprisals or victimisation if they have a reasonable belief that they have made any disclosure in good faith. A whistleblowing hotline has been established to further facilitate the employees and external parties to raise their concerns on possible misconduct or violation of the rules and regulations.

Corporate Integrity Pledge

In May 2014, the Company signed the Corporate Integrity Pledge with the Malaysian Anti-Corruption Commission ("MACC") to mark its commitment to enhance corporate governance, accountability and transparency in all aspects of the business operations in the CCM Group.

By signing the pledge, CCM is making a unilateral declaration that it will not commit corrupt acts, will work towards creating a business environment that is free from corruption and will uphold the Anti-Corruption Principles for Corporations in Malaysia in the conduct of its business and in its interactions with its business partners and the Government.

Human Resource Management

Key Performance Indicators are used to measure the achievement of staff in achieving the business and operational objectives. To enhance the competencies of the Group's talent pool, staff are kept updated with required training programmes ensuring their capabilities to carry out duties and responsibilities towards achieving the Group's objectives.

In order to ensure unsatisfactory performance and/or workplace conflicts are properly dealt with, the Group has in place guidelines for handling misconduct and disciplinary matters which include breach of integrity and other misconduct which do not comply with the terms and conditions of service whether expressed or implied.

Internal Audit

The Group Internal Audit ("GIA") functions independently review, the adequacy and integrity of the system of internal controls in managing the key risks, and reports accordingly to the Audit and Compliance Committee of the Board on a quarterly basis. Where weaknesses have been identified as a result of the reviews, improvement measures are recommended to strengthen controls; and follow-up audits are conducted by GIA to assess the status of implementation thereof by Management. In carrying out its work, GIA focuses on areas of priority as directed and approved by the Audit and Compliance Committee of the Board.

The Board remains committed towards maintaining a sound system of internal controls and believes that a balanced achievement of the Group's business objectives and operational efficiency can be attained. The Group continues to take measures to further strengthen the internal control environment.

BOARD'S ASSESSMENT

The Board is of the view that the Company's overall risk management and internal control system is operating adequately and effectively, in all material aspects, and have received the same assurance from both the Group Managing Director and Chief Financial Officer of the Company.

The Board confirms that the risk management process in identifying, evaluating and managing significant risks faced by the Group has been in place throughout 2016 up to the date of approval of this statement.

For the financial year 2016, the Board is of the view that the system of internal controls was adequate and effective and, has not resulted in any material loss, contingency or uncertainty that would require disclosure in the Annual Report 2016.

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REVIEW OF STATEMENT BY EXTERNAL AUDITORS

The external auditors have reviewed this Statement on Risk Management and Internal Control pursuant to the scope set out in Recommended Practice Guide ("RPG") 5 (Revised 2015), *Guidance for Auditors on Engagements to Report on the Statement on Risk Management and Internal Control included in the Annual Report* issued by the Malaysian Institute of Accountants ("MIA") for inclusion in the annual report of the Group for the year ended 31 December 2016, and reported to the Board that nothing has come to their attention that causes them to believe that the statement intended to be included in the annual report of the Group, in all material respects:

- (a) has not been prepared in accordance with the disclosures required by paragraphs 41 and 42 of the Statement on Risk Management and Internal Control: Guidelines for Directors of Listed Issuers; or
- (b) is factually inaccurate.

RPG 5 (Revised 2015) does not require the external auditors to consider whether the Directors' Statement on Risk Management and Internal Control covers all risks and controls, or to form an opinion on the adequacy and effectiveness of the Group's risk management and internal control system including the assessment and opinion by the Board of Directors and Management thereon. The auditors are also not required to consider whether the processes described to deal with material internal control aspects of any significant problems disclosed in the annual report will, in fact, remedy the problems.

The statement has been approved by the Board of Directors at its meeting on 27 February 2017.