Statement on Risk Management and Internal Control

OVERVIEW OF OUR RISK MANAGEMENT APPROACH

Effective risk management is an essential part of CCM Group of Companies ("Group") business model with the objective of seeking opportunities from the risks, and minimises the potential impacts in the event that the risks are crystallised. It also protects the Group's reputation whilst ensuring profitability and sustainability. The Group's risk management approach is strongly embedded in the Group's strategy, whereby the achievement of the Group's strategy requires a strong risk-centric approach to ensure the Group is fully aware and prepared for myriad of risks possibly faced by the business. This approach thus underpinned by robust internal controls and structured framework which are prerequisites to the achievement of the Group's business objectives.

RESPONSIBILITY

The Group Board acknowledges the principal risks associated with the Group's business and recognises that business decisions may requires taking an appropriate level of risks. Therefore, the Board shall ensure that there is system in place which effectively monitor and manage these risks. For areas relating to risk management and internal controls, the Board holds the overall responsibility over the establishment and oversight of the adequacy and effectiveness of the Group's risk management and internal controls systems, which includes financial, operational and compliance controls. Whilst the establishment of the risk management and internal controls systems places the importance of managing the businesses' key risks within the approved risk appetite, the Board acknowledges that the systems are designed to mitigate and minimize, rather than eliminate the risk of failure to achieve business objectives. Accordingly, it can only provide reasonable and not absolute assurance against material misstatement or loss.

RISK MANAGEMENT AND INTERNAL CONTROL GOVERNANCE

The role of overseeing and maintaining the risk management and internal control systems, to ensure that they are adequate and effective, are held by the following:

i. **Risk Management Committee (RMC)**

   The RMC oversees the implementation of the risk management, which is put in place to manage the risk exposures of the Group within the approved risk appetite. Thus RMC is tasked to direct and oversee the formulation of a structured mechanism in the Group to inculcate strong governance, ethical, integrity and risk management culture within the Group. On a quarterly basis, RMC reviews the results of the risk assessments and treatments, and subsequently reports to the Board on key matters in relation the implementation of the risk management system.

ii. **Audit and Compliance Committee (ACC)**

   The ACC is responsible for overseeing the internal control systems (including integrity matters) of the Group, and determining that all major issues reported by the Group Internal Auditor, the external auditors and other outside advisors have been satisfactorily resolved. ACC is to assess the effectiveness of the system of internal control vis-à-vis the risks, control environment and compliance requirement of the Group. Finally, the ACC reports to the Board on all important matters pertaining to the Group's controlling processes.

iii. **Management**

   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 is responsible for good business practices and governance.

   Management is also charged with the responsibility of establishing an internal control framework with the objective of controlling the operations of the Group in a manner which provides the Board with reasonable assurance that the control objectives are achieved. This also includes review of internal control systems, which needs to be continuously improved to mitigate the Group's current and emerging risks.

Statement on Risk Management and Internal Control

iv. **Group Risk Management Unit (GRM)**

The overall risk management process is facilitated by GRM, which maintains regular communication and consultation with management. They also facilitate risk analysis of strategic business objectives, operational initiatives and emerging issues in the Group, as well as conducts periodic follow-up of the updating of risk profiles and the implementation of risk treatment measures by management. This escalation covers how significant risks are being managed, monitored, assured and improved.

v. **Group Assurance Unit**

The Group Assurance Unit assists the ACC in 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 ACC on the adequacy and effectiveness of the Group's systems of internal control, together with ideas, counsel and recommendations to improve the systems.

RISK MANAGEMENT FRAMEWORK

The Board confirms that there is an ongoing group-wide risk management process for identifying, evaluating and managing the significant risks faced by the Group. This risk management process seeks to minimise risk incidents and maximise business outcomes. All new and major investments have to observe a process approval that includes an assessment of the associated risks. 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.

The line functions within the organisation structure (including the monitoring and assurance functions) provide the necessary support to the Board in ensuring the effectiveness of the Group's risk management framework. Responsibilities are allocated to the respective functions to enable the Group to have adequate lines of defence in managing its risk.

The first line of defence are the risk owners across the businesses of the Group. They define, highlight, report on and manage a variety of risks, including business and operational risks anticipated by them. In doing so, the Management from all businesses 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 Unit, which is the second line of defence for the Group. The Group has an Executive Risk 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. Finally, the process is subjected to regular review by the Board, via the RMC.

The internal audit function, which is carried out by the Group Assurance Unit, serves as the third line of defence by providing independent assurance on the effectiveness of the risk management processes.

INTERNAL CONTROL FRAMEWORK

The Management has put in place internal controls to ensure that the Company's objectives are achieved through adequate mitigation of the identified risks.

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. The respective Board Committees are tasked to assess the risk management aspects, control environment and alignment to the overall Group's risk appetite in relation to performing their duties as indicated in the Board Committee's Terms of Reference.

Assignment of Authority and Responsibility

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 as well as authorities from the Board to the Board Committees and to members of Management, and the authorisation levels of various aspects of operations. Clearly defined LOA within a divisionalised organisation structure have also been established to facilitate the supervision and monitoring of conduct and operations of individual business units and support services departments. These are regularly reviewed and updated to resolve operational effectiveness and challenges and to reflect the changing risks. Additionally, the Group has a Project Review Committee, which is embedded within the Group Management Committee, to 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.

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 clearly defined policies and procedures in place to ensure adequacy of controls, and compliance with relevant laws and regulations. These policies and procedures are periodically reviewed and updated to reflect changes in business structure and processes. Certain companies within the Group have ISO 9001:2015, ISO 14001:2015, OHSAS 18001:2007 accreditations and MS 1454:2007, MS 177:1973, MS 1718:2003, MS 700:1981 and MS 171:2013 product certifications for operational purposes. These accreditations and certifications demonstrate the Group's 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 Chemicals Business and Polymers Business 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 Chief Financial Officer to 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.

Statement on Risk Management and Internal Control

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.

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 and Entertainment, Competition Law, Securities & Insider Trading, Risk Management, Information Communication Technology, Intellectual Property and Innovation, Quality and Halal policies. The Board had during the year, approved the revised Sponsorship and Donation Policy.

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 whistle blower 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 an Integrity Pact

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.

In 2015, Integrity Pacts were implemented and suppliers of the Group were encouraged to sign up the Integrity Pact to state their commitment in supporting the Group's initiatives in combating corruption.

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.

Group Risk Management

The Group Risk Management Unit reviews the 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. The Group Risk Management Unit also provides guidance to the Group's operations in identifying and assessing risks, developing relevant and effective mitigation strategies to manage the risks.

Internal Audit

The Group Assurance Unit carries out the internal audit assignments that independently reviews the adequacy and integrity of the system of internal controls in managing the key risks, and reports accordingly to the ACC on a quarterly basis. Where weaknesses have been identified as a result of the reviews, improvement measures are recommended to strengthen controls. Follow-up audits are then conducted to assess the status of implementation thereof by Management. In carrying out its work, the Group Assurance Unit focuses on areas of priority as directed and approved by the ACC.

The Board remains committed towards maintaining a sound system of internal controls and believe 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 assurances from the Group Managing Director and Group 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 2018 up to the date of approval of this statement.

For the financial year ended 31 December 2018, 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 2018.

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 Audit and Assurance Practice Guide ("AAPG") 3, *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 2018, and reported to the Board that nothing has come to their attention that cause 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.

AAPG 3 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 14 March 2019.