



## Report of the RISK MANAGEMENT COMMITTEE

The Board is pleased to issue the following report of the Risk Management Committee and its activities during the financial year ended 31 December 2012.

### COMPOSITION OF RISK MANAGEMENT COMMITTEE AND MEETINGS

The Risk Management Committee comprises of three (3) members, all of whom are Non-Executive Directors. The quorum for meetings of the Committee shall be two (2)

members, who must include the Chairman provided that in the event the Chairman is unable to be present for a meeting, the members who are present at the meeting can appoint a Chairman among themselves to chair the meeting. Any other Board members, the Group Managing Director and any other officer or person as deemed necessary may be invited to attend the meeting. The Secretary of the Committee shall be the Company Secretary.

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 are as follows:

Members of Risk Management Committee	No. of Meetings Attended
<b>Dato' Azmi bin Mohd. Ali</b> Chairman, Non-Independent Non-Executive Director	4/4
<b>Professor Dato' Seri Ir. Dr. Zaini bin Ujang</b> Member, Non-Independent Non-Executive Director	4/4
<b>Datin Paduka Kartini binti Hj. Abdul Manaf</b> Member, Non-Independent Non-Executive Director	4/4

### TERMS OF REFERENCE

#### Purpose

The purpose of the Risk Management Committee is to assist the Board of Directors in the effective discharge of its primary responsibilities of identifying principal risks and implementing appropriate systems and risk assessment processes to manage such risks, in line with the Malaysian Code on Corporate Governance issued by Securities Commission and Bursa Malaysia Listing Requirements.

#### Principles

- i. CCM Group consciously takes measured amount of risks and manages these risks effectively to meet its long term goals and objectives;
- ii. Risk Management is an integral part of the Group's business practice at all levels of the CCM Group;

- iii. The Committee will keep under review the effectiveness of the Group's Risk Management system, taking into account:
  - the development and maintenance by management of a comprehensive Risk Management framework;
  - the Group's culture of Risk Management (including awareness, education and training for all levels of staff);
  - feedback from the Management and the External Auditors on the effectiveness of Risk Management system;
  - changes to the divisional risk profiles, arising from the material, financial and non-financial risks facing the divisions and/or any part of the CCM Group;
  - the impact and mitigation of significant risk events.



## Report of the RISK MANAGEMENT COMMITTEE cont'd

### Duties

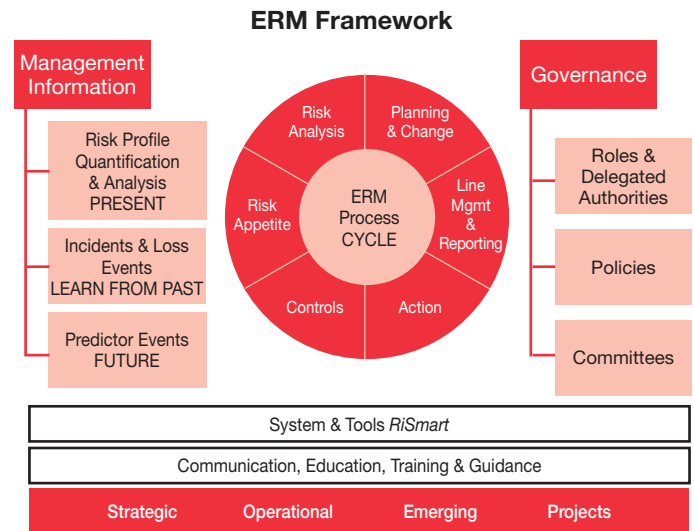
Subject to any resolution of the Board, the duties of the Committee are to:

- i. set risk appetite, approve frameworks, policies and processes for managing risk, and accept risks beyond the approval discretion provided to the management;
- ii. recommend to the Board the parameters of the CCM Group's risk-reward strategy, monitor the alignment of the Group's risk profile with the risk appetite and ensure that the Group maintains an appropriate level and quality of capital in line with the risks inherent in its activities and projected business performance;
- iii. monitor changes anticipated for the economic and business environment, including consideration of emerging risks, legislative or regulatory changes, major initiatives and other factors considered relevant to the CCM Group's risk profile;
- iv. receive reports from the Executive Risk Management Committee (ERMC) and/or Group Risk Department (GRD) which have been duly reviewed/deliberated by the ERMC concerning:
  - Risk Management policies, strategies, processes and controls, status of the implementation and effectiveness thereof, within the divisions and, if thought fit, approve or vary them;
  - Alignment or integration of risk management activities with other management activities/ tools which include formulation of strategies, development of business plans, budgeting, forecasting and performance review, within the divisions;
  - Identification and management of enterprise risks which could impact the achievement of business objectives.

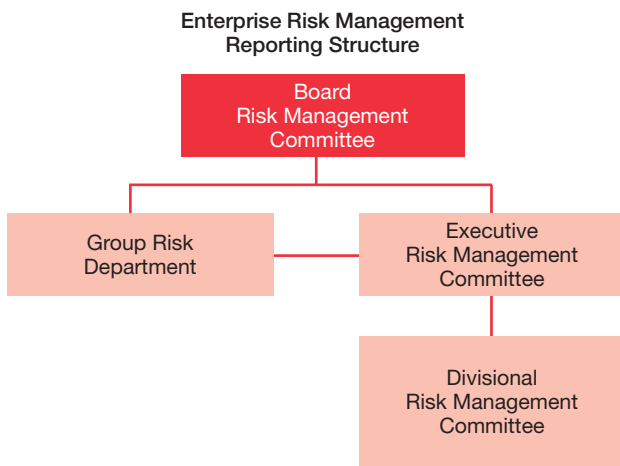
### RISK MANAGEMENT FUNCTION

The Group's Board Risk Management Committee is supported by an in-house risk management function, i.e. GRD. GRD provides risk advisory and supports various risk committees in the Group in all matters of Enterprise Risk Management (ERM).

The ERM provides a framework for risk management, which involves defining policy and objectives, lines of responsibilities and accountabilities, identifying particular risk events relevant to the Group's objectives, assessing them in terms of likelihood and magnitude of impact, evaluating them, determining response strategy, and monitoring progress of key risks faced by the Group. The ERM framework is outlined in the diagram below:



The Group has an ERM which is chaired by the Group Managing Director and comprises Senior Management of the Group. The ERM is assisted by the Divisional Risk Committee whose role is to identify, mitigate and manage risks within their businesses. The ERM retains the overall risk governance responsibility and risk oversight of the Group and its subsidiaries. The ERM structure is summarised below:



The Group's risk management process establishes the context of risk in relation to the Group and its various businesses. The process includes risk identification, analysis, evaluation and treatment with continuous monitoring, review, communication and consultation. Analysis of risks based on likelihood of occurrence and significance of their consequences is consistent with the Risk Ranking of an approved Risk Matrix.

**Risk Matrix**

		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

GRD drives the implementation of the Business Continuity plan for the Group. Risk Coordinators are appointed at each business division to act as risk liaison.

## ACTIVITIES DURING THE YEAR

### Risk Reporting

Quarterly reports to Board Risk Management Committee (BRMC) highlight the Group's Risk Profile to enable Board and Management to focus on key risks affecting the Group's businesses and operations and the system of internal control necessary to manage such risks. The BRMC reviewed significant risks comprising of Strategic, Operational and Emerging risk categories. The review included movements from Gross to Residual Risk Levels which monitors Management's progress in implementing controls and assessing the effectiveness of measures addressing the sources of risk.

In summary, the range of risk issues deliberated for the Group during 2012 included strategic growth, market and price volatility, operational performances, competition and compliance.

The BRMC reviewed significant risks of the Group's businesses particularly in respect of the following areas:

- i. Fertilizers Division  
Improvements to plant efficiency, financial performance, cost management and supply chain, concentration of market and competitors.
- ii. Chemicals Division  
The market dynamics and volatility of the manufacturing sector, talent gap, and growth opportunities within the chemicals industry.
- iii. Pharmaceuticals Division  
The competition faced by the business and initiatives to address the strategic and regulatory issues of the business, with emphasis on the division's goal to be a leader in the region within mid to long term range.



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### ERM System

In Quarters 1 and 2, the BRMC reviewed the developments of the *RiSmart* implementation ensuring that the system conforms to the Group's risk management framework. In Quarter 2 2012, an ERM system (*RiSmart*) was introduced within the Group. After a period of training and awareness, the third and fourth quarter of 2012 risk reporting was carried out via *RiSmart* online. Risks are identified by risk owners across various entities, geographical locations, functions and by strategic objectives. Risk information is made available to risk owners and senior management with online accessibility and improves the efficiency, consistency and accuracy of reporting. The reporting captures updates of risk decisions and risk acceptances made based on defined risk appetite, controls and treatment measures undertaken by risk owners. Audit trail report monitors risk reporting frequency of risk owners and senior management uses the Risk Review function to review any aspects of risks identified. Risk Quantification and Key Risk Indicators (KRIs) are areas being pursued by Management towards an integrated Enterprise Risk Management.

### Business Continuity

The Group consolidated its various crisis management and business continuity programmes operating at each of its business operations to a Group Business Continuity Management framework, policy and guidelines which was launched in August 2012. A high level Business Impact Analysis (BIA) to determine key issues and exposures for each business division was done in the period and the process of assessing the magnitude of the impact for business continuity is in progress. In addition, a more regular and coordinated Group-wide testing of the Business Continuity Plan is planned in the future.

### Code on Corporate Governance

The BRMC reviewed the relevant recommendations of the revised Malaysian Code on Corporate Governance (MCCG 2012) in particular Principle 6.1 : 'Recognise and Manage Risk' ensuring the current Group's ERM meets the objective of the said Code. The Group's ERM framework built within the *RiSmart* system is based on ISO 31000, premised on international guideline for managing risk. With a view to ensure risk management process is well structured, further enhancements were incorporated into the framework in November 2012. The enhancement made to *RiSmart* was primarily in re-defining the strategy of managing risks and to emphasise *RiSmart* information system as the driver of the Group's ERM framework, methodology and processes.