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 control, which includes financial, operational and compliance control. The system is designed to manage 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.

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 implemented an improved Enterprise Risk Management Framework (named *RiSmart*) which is based on ISO 31000, premised on international guideline for managing risk. *RiSmart* defines, highlights, reports on and manages the key business and operational risks anticipated by business divisions of the Group.

The Group-wide risk management process is subjected to regular review by the Board. 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.

Management from each business or department apply a risk/control self-assessment approach to identify the risks relating to their areas of supervision and control. These include the likelihood of these risks occurring; the consequences if they do occur and 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 Department which is dedicated to the role.

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

KEY ELEMENTS OF THE GROUP'S SYSTEM OF INTERNAL CONTROL

The key elements of the Group's system of internal control 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, Risk Management Committee, Nomination and Remuneration Committee and Finance and Investment 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 has a Project Review 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. The Project Review 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 Management to ensure that the businesses are operating according to the plans, as well as to monitor adherence to the internal control procedures established. Management reports are presented to the Board each quarter 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 compliance with controls, and 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 Quality Management Systems (IQMS). Chemical Company of Malaysia Berhad (CCM Berhad), on 30 October 2012 was accorded triple certifications namely ISO 9001, 14001 and OHSAS 18001 by Bureau Veritas. These certifications demonstrate our ongoing commitment to drive for excellence and continuous quality improvement.

During the year under review, the Group has implemented SAP across its key business activities namely its Pharmaceuticals 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 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 during the year 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.

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 is kept updated with required training programmes ensuring their capabilities to carry out duties and responsibilities towards achieving Group's objectives.

To ensure unsatisfactory performance and workplace conflicts are properly dealt with, the Group has in place guidelines for handling misconduct and disciplinary matters which includes 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 Department (GIA) independently reviews the adequacy and integrity of the system of internal control 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; 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 control 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 Assessment

The Board is of the view that the Group's overall risk management and internal control systems are 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 Group.

The Board confirms that the risk management process in identifying, evaluating and managing significant risks faced by the Group has been in place throughout 2012 up to the date of approval of this statement.

For the financial year 2012, the Board is of the view that the system of internal control was adequate and effective and has not resulted in any material loss, contingency or uncertainty that would require disclosure in the Annual Report 2012.