

# STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

## INTRODUCTION

This statement is in line with Paragraph 15.26(b) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad on the Group's compliance with the Principles and Best Practices relating to internal control as stipulated in the Malaysian Code on Corporate Governance 2012 and guided by the Statement on Risk Management & Internal Control: Guidelines for Directors of Listed Issuers.

## ACKNOWLEDGEMENT OF RESPONSIBILITIES

The Board of Directors (the "Board") affirms its overall responsibility for the Group's system of internal control, including the assurance of its adequacy and integrity, and its alignment with business objectives. However, it should be noted that control systems are designed to manage rather than to totally eliminate associated risks; and as such, can only provide reasonable but not absolute assurance against material loss or failure.

The Board has established a process for identifying, evaluating, monitoring and managing the significant risks faced by the Group in its achievement of objectives and strategies. This process is also applicable to the property development activities undertaken by the Group through joint ventures, to the extent that the Group reviews and manages significant risks in order to achieve the Group's business objectives, performs bi-annual risk review and monitors key control activities in relation to the principal risks. This process has been in place for the year under review and up to the date of approval of this Statement.

## RISK MANAGEMENT

The Group adopts an Enterprise Risk Management ("ERM") framework which is consistent with the Committee of Sponsoring Organisations of the Treadway Commission's ("COSO") ERM framework, the Statement on Risk Management & Internal Control: Guidelines for Directors of Listed Issuers, Bursa Malaysia's Corporate Governance Guide, and is in line with ISO 31000, Risk Management – Principles and Guidelines (which is a standard relating to risk management codified by the International Organization for Standardization. ISO 31000 provides a standard on the implementation of risk management).

The Group's ERM framework essentially links the Group's objectives and goals (that are aligned to its Vision) to principal risks; and the principal risks to controls and opportunities that are translated to actions and programmes. The framework also outlines the Group's approach to its risk management policies:

### **i) Embrace risks that offer opportunities for superior returns**

By linking risks to capital, the Group establishes risk-adjusted-return thresholds and targets that commensurate with varying risk levels assumed by its businesses. Superior risk management and other corporate governance practices are also promoted as contributing factors to lowering long-term cost of funds and boosting economic returns through an optimal balance between control costs and benefits.

### **ii) Risk Management as a collective responsibility**

By engaging every level of the organisation as risk owners of their immediate sphere of risks (as shown in the illustration), the Group aims to approach risk management holistically.

This is managed through an oversight structure involving the Board, Audit and Risk Management Committee ("ARMC"), Internal Audit, Executive Management and business units' Risk Management Committees.

### **iii) Risk forbearance shall not exceed capabilities and capacity to manage**

Any business risk to be assumed shall be within the Group's core competencies to manage. Hence, the continuous effort in building risk management capabilities and capacity are key components of the Group's ERM effort. The Group's overall risk appetite is based on assessments of the Group's risk management capabilities and capacity.



**iv) To apply as both a control and strategic tool**

As a control tool, the Group ensures that the intensity and types of controls commensurate with assessed risk rankings. The Group also applies risk management as a strategic tool in scoping opportunities, investment and resource allocation, strategy formulation and performance measurement.

The Board conducts periodic reviews on the adequacy and integrity of the Group's ERM framework and policies, particularly in relation to the mechanisms for principal risks identification, assessment, response and control, communication and monitoring.

The Group's activities expose it to a variety of risks, including operating and financial risks. The Group's overall risk management objective is to ensure that the Group creates value for its shareholders whilst minimising potential adverse effects on its performance and positions. The Group operates within an established risk management framework and clearly defined policies and guidelines that are approved by the Board.

Under the Group's ERM framework, the Group has relevant policies and guidelines on risk reporting and disclosure which cover the following principal risks:

**I) OPERATING RISK**

- The Group's policy is to assume operating risks that are within its core businesses and competencies to manage. Operating risk management ranges from managing strategic operating risks to managing diverse day-to-day operational risks.
- The management of the Group's day-to-day operational risks (such as those relating to health and safety, quality, marketing and statutory compliance) is mainly decentralised at the business unit level and guided by approved standard operating procedures. Operational risks that cut across the organisation (such as those relating to procurement, integrated systems and reputation) are coordinated centrally.

**II) FINANCIAL RISK**

- The Group is exposed to various financial risks relating to credit, liquidity, interest rates, and foreign currency exchange rates. The Group's risk management objectives and policies coupled with the required quantitative and qualitative disclosures relating to its financial risks are set out in Note 39 to the financial statements on pages 190 to 204.

**CONTROL ENVIRONMENT**

- The Group's corporate culture is embedded in its core values of integrity, commitment, loyalty, excellence in execution, speed or timeliness, innovativeness and cost efficiency – to achieve the Group's vision and support the business objectives, risk management and internal control system.
- The Code of Business Conduct and Ethics reinforces the Group's core value on integrity by providing guidance on moral and ethical behaviour that is expected from all employees in following the laws, policies, standards and procedures.
- Board committees such as the ARMC and Nominating and Remuneration Committee are established by the Board, and they are governed by clearly defined terms of reference and authority for areas within their scope.

- The Group has an organisational structure that is aligned with its business and operational requirements, with clearly defined lines of responsibility and authority levels.

### **CONTROL ACTIVITIES**

- Policies and procedures have been established for key business processes and support functions. The Group has in place a system to ensure that there are adequate risk management, financial and operational policies, procedures and rules relating to the delegation and segregation of duties.
- Annual business plans and operating budgets are prepared by business and operating units, and are approved by the Board. Actual performance and significant variances against budget are monitored on an ongoing basis.

### **INFORMATION AND COMMUNICATION PROCESSES**

- Management and the Board receive timely, relevant and reliable management and financial reports which are reviewed on a regular basis.
- The Group has in place a Management Information System that captures, compiles, analyses and reports relevant data, which enables management to make business decisions in an accurate and timely manner.
- A whistleblowing policy is established to provide appropriate communication and feedback channels which facilitate whistleblowing, in a transparent and confidential manner. It outlines the Group's commitment to encourage its employees and stakeholders to raise genuine concerns about possible improprieties in matters of financial reporting, compliance, suspected violations of the Group's Code of Business Conduct and Ethics, and to disclose any improper conduct or other malpractices within the Group (i.e. whistleblowing) in an appropriate way.

### **MONITORING**

- The Group's policies and procedures are reviewed and revised periodically to meet changing business and operational needs and regulatory requirements.
- Board meetings are held at least once in a quarter with a formal agenda on matters for discussion. In addition, regular management and operation meetings are conducted by senior management which comprises the Chief Executive Officer ("CEO") and divisional heads.
- The Group's Internal Audit function reports to the ARMC and is guided by an Internal Audit Charter that is approved by the Board. The Internal Audit function monitors compliance with the Group's policies and procedures and applicable laws and regulations, and provides independent assurance on the adequacy and effectiveness of risk management and internal control system by conducting regular audits and continuous assessment. Significant audit findings and recommendations for improvement are highlighted to senior management and the ARMC, with periodic follow-up reviews of the implementation of corrective action plans.

### **REVIEW FOR THE FINANCIAL YEAR**

A review on the adequacy and effectiveness of the risk management and internal control system has been undertaken for the financial year under review. Each business unit, cutting across all geographic areas, via its respective Risk Management Committees and workgroups comprising personnel at various levels carried out the following areas of work:

- Conducted reviews and updates of risk profiles including emerging risks and re-rated principal risks.
- Evaluated the adequacy of key processes, systems, and internal controls in relation to the rated principal risks, and established strategic responses, actionable programmes and tasks to manage the aforementioned and/or eliminate performance gaps.
- Ensured internal audit programmes covered identified principal risks. Audit findings throughout the financial period served as key feedback to validate effectiveness of risk management activities and embedded internal controls.
- Reviewed implementation progress of actionable programmes, and evaluated post-implementation effectiveness.

The review includes the following:

- Regular internal audit reports and periodic discussions with the ARMC.
- Bi-annual risk reviews compiled by the respective units' Risk Management Committees, and annual presentation to and discussion with the ARMC, the Board, internal auditors, and external auditors.
- Operating units' CEO/Chief Financial Officer's ("CFO") Internal Control Certification and Assessment disclosure.
- Operating units' response to the Questionnaires on Control and Regulations.

## **REVIEW OF THIS STATEMENT BY EXTERNAL AUDITORS**

As required by Paragraph 15.23 of the Bursa Malaysia Securities Berhad Main Market Listing Requirements, the external auditors have reviewed this Statement on Risk Management and Internal Control. Their limited assurance review was performed in accordance with Recommended Practice Guide ("RPG") 5 (Revised) issued by the Malaysian Institute of Accountants. RPG 5 (Revised) does not require the external auditors to form an opinion on the adequacy and effectiveness of the risk management and internal control systems of the Group.

Based on the procedures performed, nothing had come to their attention that caused them to believe that the Statement on Risk Management and Internal Control set out above was not prepared, in all material respects, in accordance with the disclosures required by paragraphs 41 and 42 of the Statement on Risk Management & Internal Control: Guidelines for Directors of Listed Issuers, nor was factually inaccurate.

## **CONCLUSION**

The Board is satisfied with the adequacy and effectiveness of the Group's risk management and internal control system. The Board has received assurance from the CEO and CFO that the Group's risk management and internal control system, in all material aspects, is operating adequately and effectively. For the financial year under review, there were no material control failures or adverse compliance events that have directly resulted in any material loss to the Group.

This Statement on Risk Management and Internal Control is made in accordance with the resolution of the Board of Directors dated 1 September 2015.