

STATEMENT ON RISK MANAGEMENT & INTERNAL CONTROL

INTRODUCTION

Pursuant to Paragraph 15.26 (b) of the Listing Requirements and the Malaysian Code on Corporate Governance 2017 (MCCG 2017) with regards to the Manager's/Fund's state of internal control, the Board of Directors (Board) is pleased to present below the Statement on Risk Management and Internal Control during the financial year under review and up to the date of approval of this statement, prepared in accordance with the Statement on Risk Management and Internal Control: Guidelines for Directors of Listed Issuers (Guidelines) which was by the Institute of Internal Auditors Malaysia and adopted by Bursa Malaysia Securities Berhad and taking into consideration the recommendations of the MCCG 2017.

BOARD'S RESPONSIBILITY

The Board affirms its responsibility for the Fund's system of risk management and internal control which includes the establishment of an appropriate internal control environment and risk management framework as well as reviewing its adequacy and effectiveness to safeguard shareholders' investments and the Fund's assets.

The system has been put in place is to ensure that risks and their corresponding mitigation plans are effectively managed, monitored and reviewed effectively. These are done through periodical reports to the established committees through which the Board discharged its duties. Risks that are critical to strategic and business objectives are escalated to the Board level to provide reasonable assurances against material misstatement or loss.

The Board has received assurance from the Chief Executive Officer, Head of Finance and the Head of Compliance and Risk Management Department that the risk management and internal control system is operating adequately and effectively, in all material aspects.

ENTERPRISE RISK MANAGEMENT (ERM) FRAMEWORK

In order to achieve a sound system of risk management and internal control, the board and management ensure that the risk management and control framework is embedded into the culture, processes and structures of the company. The framework was designed to be responsive to changes in the business environment and clearly communicated to all levels.

The Manager plans and executes activities to ensure that the risks inherent in its management of the Fund are identified and effectively managed to achieve an appropriate balance between realizing opportunities for gains while minimizing losses to the Fund.

The Manager has first established an Enterprise Risk Management Framework (ERMF) in 2018 which sets out the risk management governance, guidelines, processes and control responsibilities and underpins the Enterprise Risk Management Policy (ERM Policy). It seeks to ensure that there is a consistency to the methods used in managing risks throughout the organisation, both at the strategic and operation level and to ensure that the risk management efforts are aligned with the Fund's business objectives. It also outlines enhanced and explicit requirements for managing risks and assists in understanding the impact of uncertainties inherent in business decisions especially impacts relating to the COVID-19 outbreak and the MCO in business operations and strategic direction. Further revision was made in 2019 to incorporate a new Earnings per Unit threshold in risk appetite/risk tolerance.

The third revision of the ERMF was presented during the Board of Director's meeting dated 25 November 2020 and duly approved. The latest revision tightens the risk management processes by adding a mitigation performance parameter, the timeline and the recommendations/assessment of the risks by the CRMD Department. In addition to the above improvement, the Board has also approved the setup of BARC, which is chaired by an Independent Director and comprises of another Independent Director and one Non-Independent Directors. The BARC is put in charge of the following roles and responsibilities:

- a) Provide guidance and advice on appropriateness of risk treatment option selected and risk action plans development ;
- b) Articulate and challenge risk ratings, control effectiveness, risk treatment options and risk action plans identified by risk owners; and
- c) Provide an independent view on specific risk and control issues, the state of internal controls, trends and events.

The ERMF specifies the level of risk tolerance expressed through the use of a risk consequence and likelihood matrix. Once the level of risk tolerance is determined, the risk owner is required to identify and implement a risk mitigation plan strategies, while taking into consideration the root cause of the risks; covering management actions with target timeline for implementation.

STATEMENT ON RISK MANAGEMENT & INTERNAL CONTROL

The risk owners are to monitor and timely update their risk profiles on an on-going basis. The update of the risk profiles includes changes to operational, financial and compliance risks and the identification of emerging risks arising from changing business conditions as well as the adequacy and effectiveness of the related controls.

In addition to the establishment of a risk management committee at the Board level, the Manager is planning to set up an Enterprise Risk Management Committee (ERMC) at the Company level, which has commenced in January 2021. The function of the ERMC is to drive risk management guided by the ERM Policy and ERMF to ensure effective identification of emerging risks and management of identified risks through implementation of appropriate controls and risk treatment strategies. Risk owners who are also ERMC members are managers or heads from the divisional units to identify and evaluate the risks related to their business objectives or budgets against which performance is measured and to establish the risk profiles during the risk assessment sessions.

The ERMC meets periodically and works closely with the Compliance and Risk Management Department (CRMD) to ensure effective and consistent adoption of risk management practices. The ERMC presented the risk management report to the Board on a quarterly basis. As part of the Board's efforts to ensure risk management and internal control processes are adequate and effective, risk mitigation strategies and internal controls are subject to periodic review by the internal audit with areas for improvement.

KEY ELEMENTS OF INTERNAL CONTROL

The Manager's Internal Control Policy and Procedures (ICPP) was designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- Effectiveness and efficiency of operations;
- Reliability of financial reporting; and
- Compliance with applicable laws and regulations.

The ICPP is a reference tool for all employees to identify and assess operating controls, financial reporting, and legal/regulatory compliance processes and to take action to strengthen controls where needed. By developing effective systems of internal control, we can contribute to DRMSB's ability to meet its objectives and reducing the potential liability arising from non-compliance to regulatory requirements, fraud and lack of efficiency and effectiveness in operations.

This guide is designed to satisfy the basic objectives of most business systems as they relate to carrying out the responsibilities of the REIT Manager/DRMSB. An effective check and balance control environment is fundamental for ensuring a sound internal control system in the Fund's operations. The Board and Management are committed to maintain an effective internal control environment by continuously enhancing the design of internal control systems to ensure that they are relevant and effective to promote operational agility while ensuring corporate governance and compliance to regulatory guidelines.

The key elements and/or features of internal control system established for maintaining strong corporate governance are as follows:

- 1) The Standard Operating Procedures (SOPs) with specified roles and responsibilities in the reporting structure to incorporate the elements of checks and balances which are aligned to the business and compliance requirements.
- 2) Limit of Authority Policy is in place for approving capital expenditure and matters on Financial, Treasury, Legal and Secretarial, Audit, Human Resource, Procurement & Contract Management, Investment and Corporate matters – all aimed at keeping potential risk exposures under control.
- 3) Documented policies and procedures are also in place subject to review every now and then to ensure that it maintains its effectiveness to support the REIT's business activities. These include the ERMF, Internal Control Policy Manual, Compliance Framework and Policy which was reviewed in 2020. The Manager has also formulated the Business Continuity Management (BCM) and Disaster Recovery Plan (DRP) Policy, which is currently under review.
- 4) The DRP testing is undertaken every quarterly and the results presented to the Board for their notation. The Company is evaluating a proposal to carry out an IT technical risk assessment and penetration test of its IT technical infrastructure.
- 5) Strategic Planning and Annual budgets are prepared by the REIT's operations. Analysis and reporting of variances against budget are presented to the Board which act as a monitoring mechanism and reviewed half-yearly.
- 6) Quarterly and annual financial statements containing key financial results as well as operational performance results of the Fund are prepared and reported to the Board.

STATEMENT ON RISK MANAGEMENT & INTERNAL CONTROL

- 7) Timely company briefings with analysts are conducted to apprise the shareholders, stakeholders and general public of the Fund's performance while promoting transparency and open discussion. However, during the year under review no company briefings were carried out due to the restrictions under the MCO.
- 8) The Chief Executive Officer is involved in the running of the day-to-day business operations by meeting up with both management and operation on a weekly basis to monitor the performance and profitability of the Fund's businesses.
- 9) Quarterly meetings on management accounts results against prior periods are conducted with significant variances explained and appropriate actions taken or plans put in place.
- 10) Quarterly meetings with the Trustee are carried out to discuss operational and financial performance of the Fund and the properties. Due to the MCO both the Trustee and REIT Manager were only able to hold the meeting only once in 2020.
- 11) The Manager has a succession planning programme in place which include identification of future successors and leadership training for candidates of critical positions.
- 12) Guidelines on employment, 360 degrees performance appraisal are currently in practice to ensure the Manager's ability to operate in an effective and efficient manner. A comprehensive performance management system that link succession planning with elements of core competencies, training needs analysis and training plan, appraisal and reward system is expected to be formalized in 2021.
- 13) The Human Resource Unit is in charge of the safety & health issues at the operating level to address and ensure compliance with occupational safety and health policies and procedures as required by the various authorities.
- 14) The Manager undertakes adequate insurance coverage on both its employees and assets to ensure both are sufficiently insured against any losses arising from various perils faced in the Manager's/Fund's operations.
- 15) The Manager has, in place the KPI reporting to drive awareness of shared management responsibility on their contribution towards enhancing the operating performance in achieving the business objectives.
- 16) Internal audit is outsourced to ensure independence in audit function, which include performing regular reviews of business processes to assess the effectiveness of the internal control system and to highlight significant risks impacting the Company with recommendations for improvement. The internal audit team reports directly to the BARC.
- 17) Evaluations of outsourced service providers are carried out on a yearly basis and presented at the management committee.
- 18) Senior management team conducts regular discussions with property, maintenance and service managers to discuss issues for improvement and to promote better understanding to facilitate cognizance in decision-making capability. Due to the MCO, the Property Management meetings were only able to be held once in 2020
- 19) The Manager launched its Anti-Bribery & Corruption Framework and the Whistleblowing Policy effective 1 June 2020, which is guided by the Guidelines on Adequate Procedures issued under section 17A(5) of the MACC Act.

INTERNAL AUDIT

The Manager outsources its Internal Audit Function, which reports independently to the BARC to provide the Board with adequate assurance it requires regarding the adequacy and effectiveness of risk management, internal control and governance processes.

The Internal Audit Team (IAT) adopts a risk-based approach in executing the annual audit plan that focuses on major business units and/or operations. The annual audit plan is reviewed and approved by the BARC. The IAT reports directly to the BARC on the outcome of its appraisal of the operational activities. Significant audit findings are presented and deliberated by the BARC on a quarterly basis or as appropriate. The IAT also monitors the implementation of audit recommendations in order to obtain assurance that all major risks and controls measures identified have been reasonably addressed by the management in an effective and timely manner.

STATEMENT ON RISK MANAGEMENT & **INTERNAL CONTROL**

BOARD REVIEW

The Board is of the view that the risk management and internal control system in place throughout the year under review and up to the date of approval of this Statement is sound and sufficient to safeguard the interests of the Fund's stakeholders, their investments and the Fund's assets. Additionally, the Board regards the risks faced by the Manager/Fund are within its tolerance levels in relation to its business and strategic objectives.

The Board is not aware of any material losses or fraud during the year under review as a result of weaknesses in internal control. The management is continuously taking necessary measures to improve and strengthen the risk management and internal control system of the Manager/Fund.

REVIEW OF THE STATEMENT BY EXTERNAL AUDITORS

The External Auditors have performed limited assurance procedures on this Statement on Risk Management and Internal Control (Statement) in accordance with Malaysian Approved Standard on Assurance Engagements, ISAE 3000 (Revised), Assurance Engagements other than Audits or Reviews of Historical Financial Information and AAPG 3, Guidance for Auditors on Engagements to Report on the Statement on Risk Management and Internal Control included in the Annual Report.

They have reported to the Boards that nothing has come to their attention that causes them to believe the Statement intended to be included in the Annual Report is not prepared, in all material respects, in accordance with the disclosures required by Paragraphs 41 and 42 of Statement on Risk Management and Internal Control: Guidelines for Directors of Listed Issuers nor is the Statement factually inaccurate.

This Statement is made in accordance with the resolution of the Board of Directors on 18 February 2021