

RISK MANAGEMENT

Our approach towards risk management is framed by our ongoing understanding of the risks that we are exposed to, our risk appetite and how these risks change over time. Our system comprises of processes and policies designed to address risks such as commodity prices, foreign currency exchange rates, counterparty & credit, economic & financial sanctions, interest rates and liquidity.

OVERVIEW

As a result of our global activities, we are exposed to various types of market risks, including fluctuations in commodity prices, foreign currency exchange rates, counterparty & credit risk and interest rates, which may affect our operational results and financial

positions. Our Group Risk Department ensures that all such risks are systematically identified, quantified, monitored, mitigated and managed on a regular basis.

COMMODITY PRICE RISK

Commodity prices can vary for many reasons, such as changes in resource availability, cost of production, demand for competing commodities and substitutes, sovereign policies and regulation, global and regional economic conditions, global and regional weather conditions, natural disasters and diseases etc. all of which impact global markets and demand for commodities. Furthermore, changes in such supply and demand conditions impact the expected future prices of each commodity. Our Group is predominantly exposed to volatility in palm oil market prices. To ensure consistency in our manufacturing production, we enter forward crude palm oil ("CPO") purchase contracts besides maintaining CPO inventories. The



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sale of corresponding finished goods may not match on a daily basis which resulting in timing differences.

The Group uses derivative instruments, predominantly exchange traded futures, for the purpose of managing such exposures associated with commodity price. The derivative instruments that we use for hedging purposes are intended to reduce the volatility in our operations. While these derivative instruments are subject to fluctuations in value, those fluctuations are generally offset for the hedged exposures by the changes in fair value of the underlying exposures. Despite such hedging, we remain exposed to basis risk between CPO and finished goods. We have established policies that limit the amount of permissible unhedged fixed price commodity positions which are generally a combination of volumetric and Value-At-Risk ("VAR") limits. However, as our major portion of inventories are valued at cost or net realisable value whichever is lower, no compensating fair value gain is recognised in our reported financial statements for inventories (refer Note on Derivative Financial Instruments and Note on Financial Risk Management to our consolidated financial statements included as part of this Annual Report). Our net commodity position consists of our inventory of raw material and finished goods, forward purchase and sale contracts and exchange traded derivative instruments. The fair value of this position is a summation of the fair values calculated by valuing all our positions at quoted market prices for the period where available or utilising a close proxy. VAR is calculated on the net position and monitored at the 95% confidence interval.

The Group has been consistently working to actively manage and mitigate this inherent risk by systematic diversification of our product portfolio such as by increasing the sales volumes of consumer pack segment and value-added products.

FOREIGN EXCHANGE RISK

The Group's functional and reporting currency is US Dollars ("USD"). Our key origin's exports are primarily denominated in USD. Majority of our

expenses and domestic sales are denominated in the respective local currency. The primary currencies we are directly or indirectly exposed to are Malaysian Ringgit, Euro, Singapore Dollar, Indonesian Rupiah, Australian Dollar and Chinese Yuan. For hedging our foreign exchange risk, we enter derivative instruments, primarily currency forward, with reputed financial institutions.

COUNTERPARTY AND CREDIT RISK

We are subject to significant counterparty and credit risks that arise through our forward sales and purchase transactions. The Group actively monitor's credit and counterparty risks through regular reviews of exposures and credit analysis by Risk Department and treasury teams. The limits approved by Risk Department, besides analysis of the party, is a factor of Group's own appetite for risk as well as the size of the relevant transaction when compared to Group's Balance Sheet. While fixing credit limit for a customer besides their financial position and operating history we also do a market background check. As a practice we do not grant open credit to new customer. Existing credit limits are periodically reviewed considering their payment record,



transaction size and length of our relationship besides the prevailing market conditions. The operating teams take their compliance obligations regarding international sanctions extremely seriously with support from the Controller, Legal and Treasury Departments.

INTEREST RATE RISK

Predominantly our borrowings are short term trade finance banking facilities. These are used to fund operations. Our marketers typically build the interest expense arising from the cash conversion cycle into their selling price and recover it from the customers. Therefore, short term interest movements are not a significant risk for us.

RISK GOVERNANCE STRUCTURE

Our risk management activities are governed by our risk management system that is designed to identify, quantify, monitor and manage various risks encountered in our operations and minimise the adverse effects from the unpredictability of risks on our operating and financial performance. Our system comprises of processes and policies designed to address risks such as commodity prices, foreign

currency exchange rates, counterparties and credit defaults and interest rates.

The on-going compliance of these risk management processes and policies are carried out by the heads of the respective operating units, but exposure limits are centrally set and monitored, operating under a global governance framework. Overall responsibility to monitor and assess risk lies with the independent risk function headquartered at our Singapore office. Head, Risk Management who reports directly to the CEO is a key member of the Executive Risk Management Team and works proactively with trading teams to analyse changing market conditions and ensures that hedging strategies are focused on current market dynamics.

The Risk Department reports to the Head, Risk Management and is responsible for identifying, assessing, monitoring and improving the overall effectiveness of our risk management system, the review and setting of trade positions and limits to manage our overall risk exposure. The Risk Department monitors and assesses risks on a regular basis and holds periodical meetings with our marketing and operations teams. The Risk Department has the authority to make temporary increases or changes to risk limits, but such increases or changes must at all times remain within our overall risk management guidelines and framework of the Group. Our flat corporate governance structure with short and direct channels of communication and control enable efficient monitoring and execution.

Where the execution of any activity will result in the breach of any applicable limits in our risk management guidelines and framework, specific approval for that activity must be sought and obtained from the Executive Risk Management Team prior to the execution of the activity. Any risk-related issues which are outside the scope of our risk management guidelines and framework are reported to the committee consisting of our Executive Directors, Dr Cheo Tong Choon @ Lee Tong Choon, Ms Michelle Cheo Hui Ning, Ms Bianca Cheo Hui Hsin, our Chief Financial Officer – Mr Rajesh Shroff and our Head, Risk Management – Ms Wong Lai Wan (the “Executive Risk Management Team”).



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SETTING OF RISK LIMITS

The Executive Risk Management Team establishes and reviews periodically our overall risk tolerance thresholds, measured in terms of Value-At-Risk ("VAR"). The team is responsible for overall systems, procedures and processes for risk management including derivatives trading. Such risk tolerance threshold is based on a percentage of total shareholders' funds, and/or the budgeted annual operating profit, after taking into account, among other things, the Executive Risk Management Team's view on the overall production capacity of refining and processing operations and the market in which trading activities take place, the price (and price trend) of raw materials, the track record of management in managing its risk exposures in the prior period, and the financial budgets including projected sales volume and turnover. The risk tolerance threshold is also based on the counterparty's background, financial performance and management team. This threshold refers to the maximum potential loss if all trading and operations across all products and geographical regions materialise at the same time. Such threshold limits are approved annually and reviewed periodically by Audit Committee.



Our Risk Department is responsible for the capture and measurement of Group-wide risk and ensuring compliance with our risk management system, procedures and processes. The Risk Department analyses and reviews our risk exposure with oversight from the Executive Risk Management Team.



REPORTING AND REVIEWING STRUCTURE

Our Risk Department is responsible for the capture and measurement of Group-wide risk and ensuring compliance with our risk management system, procedures and processes. The Risk Department analyses and reviews our risk exposure with oversight from the Executive Risk Management Team. Any changes to our risk management system, standards, practices, policies and risk appetite require the approval of the Board. With respect to risks related to the use of derivative financial instruments, once limits for derivatives positions have been established by our Executive Risk Management Team, our Risk Department monitors our trading activities to ensure compliance with these limits.

On a case-by-case basis, the Risk Department makes a recommendation to the Executive Risk Management Team to change established limits. If approved by the Executive Risk Management Team, the revised limits are implemented and monitored by the Risk Department. Any breach (whether of trading limits or non-adherence to established policies), disclosed or revealed by the Risk Department, will be acted upon by the Executive Risk Management Team. Where the Executive Risk Management Team considers the breach to be significant (whether in terms of financial impact or otherwise), the Executive Risk Management Team will report the breach to the Board.

Our Internal Audit Department supports in annually assessing risks and controls for the governance, trading, IT and support processes to ensure compliance with procedures of the Company. Results of these activities are reported to the Audit committee by the Group's Head of Internal Audit, accompanied by action plans to strengthen control and further mitigate risks wherever required. Our Audit Committee regularly reviews our internal control systems, internal audit reports and risk tolerance threshold limits.