

CAPE EMS BERHAD
[Formerly known as CAPE EMS MANUFACTURING (M) SDN. BHD.]
[Registration No. 199901026859 (501759-M)]
(Incorporated in Malaysia)

RISK MANAGEMENT AND INTERNAL CONTROL FRAMEWORK

Risk Management and Internal Control Framework			
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Version	Date	Summary of Changes

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(A) RISK MANAGEMENT FRAMEWORK

1. STATEMENT

This framework covers Cape EMS Berhad [Formerly known as Cape EMS Manufacturing (M) Berhad] (“CAPE” or “Company”) and its subsidiaries (collectively, “CAPE Group” or “Group”).

The CAPE Group is committed to integrating good risk management practices into all its business processes and operations to drive consistent, effective, accountable actions, decision making, and management practices.

2. CAPE GROUP RISK CONTEXT

We appreciate that to continue to strengthen our position, we need to understand the opportunities and challenges our business is faced with, now and in the future.

Embedding risk management principles and practices into strategy development and day-to-day business processes are critical to achieving robust and proactive commercial outcomes – a balance between mitigating threats and exploiting opportunities.

Just as risk is inherent in our operations, risk management is also inherent in all our decision-making and management processes. Risk management is essential for a good corporate governance and is a fundamental component for good management practice.

This framework sets out our objectives and accountability for our management of risk within the Group in a way that it is structured, consistent, and effective.

3. CAPE GROUP RISK MANAGEMENT OBJECTIVES

To implement an effective risk management within the CAPE Group, our objectives are to:

- Promote an enterprise-wide approach, thereby:
 - Include risk management as a component of strategy development and evaluation; and
 - Providing consistency in methodology, assessment, and management;
- Allow the recognition of external factors and anticipate future occurrences that may affect the achievement of our strategy and its objective;
- Provide confidence in operations, management decisions, and certainty regarding expected outcomes;
- Generate assurance to shareholders, counterparts, customers, employees, and the community;
- Provide an understanding of the nature of risk to effectively mitigate downside whilst optimising and realising upside;
- Sponsor innovation and maximise value from assets, ventures, and opportunities;

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- Recognise that risk is embedded in all our activities and that the underlying risk appetite is key to effective decision making;
- Provide appropriate, consistent, and transparent ownership and accountability structures;
- Enable the design and implementation of controls that:
 - are structured to promote the effective realisation of objectives;
 - provide appropriate assurance; and
 - are practical and cost-effective;
- Recognise that timely and accurate monitoring, review, communication, and reporting of risks is critical to:
 - providing early warning mechanisms for the effective management of risk occurrences and consequences;
 - assuring management, the Board of directors and shareholders;
 - providing a solid platform for growth; and
 - generating and maintaining a sound corporate history.

4. ACCOUNTABILITY

4.1 Board of directors of the Company (“Board” and each a “Director”)

The Board is ultimately responsible for overseeing the performance of the CAPE Group in achieving its objectives.

The Board’s role includes:

- Ensuring that the risk management and internal control systems are adequate and effective.
- Determining the company’s risk appetite and tolerance, and ensuring that the risk appetite and tolerance are communicated appropriately.
- Understanding and ensuring the adequacy of risk management practices.
- Reviewing the current level of risks in relation to risk appetite as an integral part of monitoring and measuring performance.
- Ensuring that actions are taken in a timely manner when risks are outside tolerable ranges.
- Establishing the Audit Committee (“AC”) and Risk Management Committee (“RMC”) to assist the Board in discharging its responsibilities.

4.2 Audit Committee (“AC”)

The function of the AC is to provide assistance to the Board in fulfilling its fiduciary responsibilities on the oversight of the integrity of the corporate accounting and financial reporting and to ensure that the internal audit function is effective and able to function independently for CAPE Group.

The AC shall assist the Board to protect the assets of the Group and interests of shareholders through effective risk management and internal control systems.

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4.3 Risk Management Committee (“RMC”)

The RMC is entrusted by the Board with the duty to implement the risk management framework, policy and process approved by the Board and oversight of risk management practice on group wide basis respectively.

The RMC is responsible for the execution and management of the risk management policy and process while the Board takes on a supervisory role in respect of the Group’s risk management policy.

4.4 Management

The management’s responsibilities are as follows:

- Leading the operation and executing the strategies in achieving the goals set for each of the subsidiaries;
- Identify the risks relevant to the business of the Company and the achievement of objectives and strategies;
- Design, implement and monitor the risk management and internal control framework in accordance with the Company’s strategic vision and overall risk appetite; and
- Identify changes to risk or emerging risks, take actions as appropriate, and promptly bring these to the attention of the Board.

In carrying out its duties, the management will ensure that employees comply with all CAPE’s Standard Operating Procedures (SOP). The management shall escalate any risk issues to the RMC.

4.5 Employees

Employees are to carry out their duties according to their respective job descriptions.

In carrying out their duties, employees shall comply with all the Group’s SOPs. They shall also report any perceived risks to the respective Head of Department and/or immediate superior.

4.6 Internal Audit

Internal Audit is an independent appraisal function established to assure the Board about the adequacy and effectiveness of the Group’s risk management and internal control systems.

The Internal Audit responsibilities are as follows:

- The Head of Internal Audit should have the relevant qualification and be responsible for providing assurance to the Board that internal control is operating effectively;

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- Internal auditors should carry out their functions according to the standards set by recognised professional bodies; and
- Internal auditors should also conduct regular reviews and appraisals of the effectiveness of the governance, risk management and internal control processes within the Company.

(B) RISK MANAGEMENT METHODOLOGIES

The risk management methodologies cover the following areas and activities of risk management:

1. Risk appetite
2. Risk Management Committee
3. Risk management process
4. Internal audit

1. RISK APPETITE

1.1 Quantitative measure

The risk appetite for the CAPE Group and each of its subsidiaries are stipulated as follows:

Entity	Profit Before Tax (“PBT”) RM’ million
CAPE Group	14.0
Cape EMS Manufacturing (M) Sdn Bhd	14.0
Cape Manufacturing (M) Sdn Bhd	1.5
Cape Holding (S) Pte Ltd	2.0

1.2 Qualitative measure

The CAPE Group has a low-risk appetite for the following matters:

- Finance
- Operations
- Reputation
- Cyber security
- Sustainability
- Safety and health of employees and workplace
- Regulatory compliance with the Main Market Listing Requirements of Bursa Malaysia Securities Berhad, Companies Act 2016 and the Capital Markets and Services Act 2007
- Regulatory compliance with income tax and custom regulations
- Any applicable laws and regulations

This risk appetite is reviewed annually.

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Risks that are beyond the risk appetite of the CAPE Group shall be brought to the attention of the AC and the Board.

2. RISK MANAGEMENT COMMITTEE (RMC)

The composition, duties and responsibilities, powers and authorities of the RMC can be referred from the Risk Management Committee Terms of Reference.

3. RISK MANAGEMENT PROCESS

3.1 Identifying risks

Risk is defined as an event that will cause the CAPE Group to suffer financial or non-financial losses in the short-term or long term. From another perspective, a risk may also be in the form of a missed opportunity to earn more profit.

In the risk identification process, all potential events that could adversely impact the achievement of business objectives are identified by the RMC.

The risks can typically be categorised into the following four of the CAPE Group's objectives:

- Strategic – high-level goals, aligned with and supporting CAPE Group's mission
- Operation – effective and efficient use of resources
- Reporting – reliability of financial reporting
- Compliance – compliance with applicable laws and regulations

CAPE Group has instituted an early warning key risk indicator (KRI) in place to alert the management and the Board (where necessary) of any significant changes in risk levels to identify the emerging risk (e.g. political and economic upheavals, technological innovations resulting in the obsolescence of the company's products or services, system failure, project delays, fraud, new product from competitors).

The process includes:

- Conducting scenario planning exercises;
- Assessing the risks according to likelihood and impact for the next five years; and
- Utilising the results for our stress testing, capital management and limit setting.

3.2 Quantify risks

The risks which are identified are quantified for their impact on the CAPE Group.

The potential impact of a risk event is the combination of the likelihood (probability) that the risk will happen and the impact (gravity) that it will cause if the risk does happen.

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A score of (1) to (5) will be assigned for likelihood and impact respectively.

Consequently, a risk event may have a combined score of (1) up to (25) depending on its likelihood and impact scores. A risk with a high rating poses a more serious threat to the CAPE Group than a low rating risk. The risk will be mapped into the following risk matrix-chart:

LIKELIHOOD	5	M	M	H	H	H
	4	M	M	M	H	H
	3	L	M	M	M	H
	2	L	L	M	M	M
	1	L	L	L	M	M
		1	2	3	4	5
		IMPACT				
		L = low risk		M = medium risk		H = high risk

3.3 Responses to risks

For each risk identified, the management will have one or more of the following response options:

- AVOID the risk by not proceeding with an activity that generates the risk.
- TREAT the risk by applying controls to minimise the likelihood or impact of the risk.
- TRANSFER the risk by sharing the impact of the risk with outside parties such as insurance or joint venture.
- TOLERATE the residue (balance) risk if it is within the CAPE Group's risk appetite.

3.4 Risk control strategies

For each type of risk response chosen, the relevant control strategies are identified.

If an existing control falls short of its effectiveness or if there is no existing control in managing a significant risk, new control strategies must be developed to manage the risk so that the residue risk is reduced to an acceptable level.

3.5 Monitoring of risks and controls

Ongoing risk monitoring is conducted to review the effectiveness of the control strategies in respect of the risks identified and that corrective actions are taken where necessary.

3.6 Periodic review

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The risk profile of the CAPE Group changes with internal and external developments. An event regarded as a low-risk today may become high risk in the future. Therefore, an effective risk management project is not a one-time exercise but an ongoing process that forms part of the operation of the CAPE Group. In this regard, the risk profile and control processes will be continually updated regularly, at least yearly.

4. INTERNAL CONTROL SYSTEM

The internal control system complements the risk management process as internal control manages/ controls the identified risks. A sound internal control system is dependent on a comprehensive and regular evaluation of the nature and extent of risks faced by CAPE Group.

In reviewing the adequacy and effectiveness of CAPE Group's internal control system, the following (non-exhaustive) shall be taken into consideration:

- Review of key Group and business unit risk registers and reports on any significant issues that have occurred during the year and changes of risks over time.
- Regular review of internal audit plan.
- Regular internal audit review to highlight any control lapses.

The internal audit function plays an independent role in the risk management and internal control system and reports directly to the AC. It will regularly review the effectiveness of the risk management and internal control processes. If the internal auditors find a shortcoming during an audit, they will propose recommendations for improvement to the Board.

5. DISCLOSURE

The annual report shall include meaningful information necessary to assist shareholders in understanding the main features of the Group's risk management processes and systems of internal control. In making its disclosures, the Board shall make reference to the latest Malaysia Code on Corporate Governance, Bursa's Listing Requirements and Risk Management and Internal Control Framework.

6. GENERAL

This framework may from time to time be amended as required, subject to the approval of the Board.