

STATEMENT ON RISK MANAGEMENT & INTERNAL CONTROL

This Statement on Risk Management & Internal Control is made pursuant to the Malaysian Code on Corporate Governance (“the Code”) and Paragraph 15.26 (b) of the MMLR with regards to the Group’s state of internal control.

The Board of Directors (“the Board”) of CRESCENDO CORPORATION BERHAD (“CCB” or “the Company”) is pleased to present below its Statement on Risk Management & Internal Control as a Group for the financial year under review, prepared in accordance with the ‘Statement on Risk Management & Internal Control: Guidelines for Directors of Listed Issuers’ (“the Guidelines”) issued by the Institute of Internal Auditors Malaysia and adopted by Bursa Securities and taking into consideration the recommendations underlying the Principle B of the Code.

BOARD RESPONSIBILITIES

The Board affirms its overall responsibilities for the Group’s system of risk management and internal control, and for reviewing the adequacy and integrity of the Group’s risk management and internal control system. The Board’s responsibility in relation to the system of risk management & internal control embedded in all aspects of the Group’s activities which encompasses all subsidiaries of the Company.

The Board has received assurance from the Executive Chairman and Managing Director and the Group Financial Controller that the Group’s risk management and internal control system is operating adequately and effectively, in all material aspects.

However, as there are inherent limitations in any system of risk management and internal control, such system put into effect by Management can only manage but not eliminate all risk that may impede the achievement of the Group’s business objectives. Therefore, the risk management and internal control system can only provide reasonable assurance and not absolute assurance against material misstatement or loss. The process to identify, evaluate and manage the significant risks is a concerted and continuing effort throughout the financial year under review.

The Board sets the policy on internal controls after conducting a proper assessment of operational and financial risks by considering the overall control environment of the organisation and an effective monitoring mechanism. The Executive Chairman and Managing Director and his management carried out the process of implementation and maintenance of the control systems. Except for insurable risks where insurance covers are purchased, other risks are reported on a general reporting basis and managed by the respective Committees within the Group.

KEY FEATURE OF THE GROUP’S RISK MANAGEMENT AND INTERNAL CONTROL SYSTEM

The responsibility for reviewing the adequacy and integrity of the risk management and internal control system has been delegated by the Board to the Audit Committee. On a periodic basis, the Audit Committee assesses the adequacy and integrity of the risk management and internal

control system through independent reviews conducted and reports it received from the Internal Auditors, the External Auditors and Management. Significant risk management and internal control matters were brought to the attention of the Audit Committee.

The Audit Committee then in turn reports such matters to the Board, if the Audit Committee deems such matters warrant the Board’s attention.

Key elements of the Group’s risk management and internal control system that have been established to facilitate the proper conduct of the Group’s businesses are described below:

i. Control Environment

• Policies and Procedures

Clearly defined policies and procedures are in place and are undergoing constant improvements to ensure that they continue to support the Group’s business activities as the Group continues to grow.

• Operations Review and Monitoring

Operations of the Group are constantly monitored with up-to-date reports being presented by the Management. Variances are carefully analysed, and corrective actions are taken where necessary. Detailed reports on performance review with steps to be taken are presented to Executive Directors periodically.

The Executive Directors, Project Director, Contract Director, General Managers and Deputy General Manager regularly visit the Group’s business units. During the visits, the head of business unit report on the progress and performance, discuss and resolve the business unit’s operational and key management issues.

• Organisation Structure and Authorisation Procedures

The Group maintains a formal organisational structure with clear lines of reporting to the Board, Committees and Senior Management with defined roles and responsibilities, authority limits, review and approval procedures and proper segregation of duties which supports the maintenance of a strong control environment.

Specific responsibilities have been delegated to relevant Committees authorised to examine all matters within their scope and report to the Executive Chairman & Managing Director and Executive Directors with their recommendations.

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- **Human Capital Policy**

Comprehensive and rigorous guidelines on the employment, performance appraisal and training program and retention of employees are in place, to ensure that the Group has a team of employees who are well trained and equipped with all the necessary knowledge, skills and abilities to carry out their responsibility effectively.

Emphasis is being placed on enhancing the quality and ability of employees through training and development. Employees' competencies are assessed annually through the annual appraisal system and subsequently, further development and training requirements are highlighted to Heads of Departments and business units for follow up.

- **Management Style**

The Board relies on the experience of the Executive Chairman and Managing Director, Executive Directors and the respective business units' management teams to run and manage the operations and businesses of the Group in an effective and efficient manner.

The Executive Chairman and Managing Director and management adopt a "hands on" approach in managing the businesses of the Group. This enables timely identification and resolution of any significant issues arising.

- **Quality Control**

Strong emphasis is placed on ensuring that the Group adheres to health, safety and environmental regulations as required by the various authorities.

- **Other Key Elements of Internal Control**

Other key elements of procedures established by the Board which provide effective internal control include:

- The Finance Department monitors the activities and performance of the subsidiaries through the monthly management accounts and ensures control accounts are reconciled with the subsidiary's records.
- Adequate insurance and physical safeguarding of major assets are in place to ensure these assets are sufficiently covered against any mishap that may result in material losses to the Group.
- Proposals for major capital expenditures of the Group are reviewed and approved by the Executive Directors.
- Regular Board and management meetings to assess performance of business units.
- All recurrent related party transactions are dealt with in accordance with the MMLR. The Audit Committee and the Board review the recurrent related party transactions at the respective meetings of the Audit Committee and the Board.

- Budgetary controls for its projects.
- Reporting mechanism whereby Executive Directors receive monthly performance and production statistics with explanations and justification.

- **Code of Ethics and Conduct and other related Policies**

In addition, the following Internal Control components have been embedded and defined in the CG Manual to assist the Board in maintaining sound internal control system:

- The Code of Ethics and Conduct defines acceptable behaviour for staff in dealing with key stakeholders and is made available to all staff through their respective Head of Department.
- Corporate Integrity Policy – Anti Fraud Policy has been developed to define consistent and clear process focused on the prevention, detection and management of fraud and applies to any irregularity, or suspected irregularity, involving employees as well as shareholders, consultants, vendors, contractors, external parties doing business with employees within the Group.
- Whistle-Blowing Policy had been formulated to encourage and provide a channel to employees to report in good faith and in confidence, without fear of reprisals, of concerns about possible improprieties. Allegations of improprieties which had been reported via the whistle-blowing channel are appropriately followed up upon and the outcome(s) reported at the Audit Committee meetings.

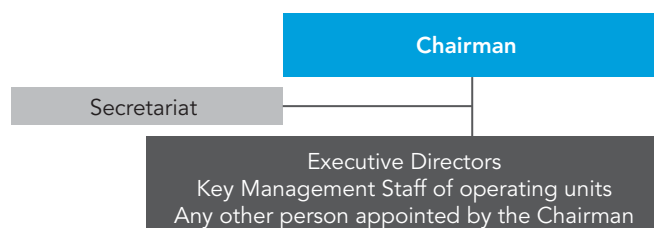
- ii. **Risk Management Framework**

The Board recognises that risk management is an integral part of the Group's business operations and is important for the achievement of its business objectives. The Group has established a Risk Management and Sustainability Committee ("RMSC") that is chaired by the Managing Director and its members comprising the Executive Directors, Heads of Divisions & Departments ("HODS") and staff from key operations. They have also been trained to identify the risks relating to their areas; 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 the desired 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 risk registers are eventually compiled to form the Group Risk Profile for reporting to the RMSC and the Audit Committee.

Ongoing risk management education and training is provided at Management and staff level by members of the RMSC.

Risk Management & Sustainability Committee**Key Roles:**

- Develop Group strategies and policies
- Monitoring sustainable performance

Risk Management & Sustainability Committee -Working Group**Roles:**

- To monitor the implementation of sustainability practices and standards
- Raising sustainability practices awareness amongst employees
- Continues stakeholders engagement efforts

Note:

The Chairman of the Working Group can be a member of the Risk Management & Sustainability Committee or appointed by the Risk Management & Sustainability Committee

KEY RISKS AND MITIGATION

Our operations are necessarily impacted by various risks which could derail us from achieving our strategic objectives. To manage and minimise our risks, we identify them, rate their potential severity, and put in place actions as well as mitigating plans to protect our businesses and the value we are able to create.

Risk Type Market Risk Tolerance Unchanged	Effect Along with the production and movement restrictions imposed to curb COVID-19 there has been a substantial increase in the cost of materials, fuel, employees and labour. At the same time, supply chains were disrupted, especially for items produced/ manufactured in countries that are still recovering from the pandemic and, more recently, the Russia-Ukraine conflict.	
Key Risk COST ESCALATION AND DISRUPTION OF SUPPLY CHAIN	Response And Mitigating Actions <ul style="list-style-type: none"> • Strategic participation in selected tenders with equitable risk allocation • Close examination of trends in materials and labour pricing • Review and enlarge network of suppliers for materials and labour • Seek alternative supply options in case of project delays 	Results We have prioritised development projects that have a cascading effect on economic growth. Coupled with a strategy to improve operational efficiencies and cost competitiveness via close engagement with local suppliers.
Risk Type Market Risk Tolerance Increased	Effect Following two-and-a-half years of weaker than normal economic performance, income generation and spending power had reduced across the globe, and in the markets where CRESCENDO has a presence. This has impacted the property industry with sales slowing down and the property overhang increasing.	
Key Risk WEAKENING MARKET CONDITIONS	Response And Mitigating Actions <ul style="list-style-type: none"> • Uncertainties in the market caused by geopolitical instability • Research shows a shift to purchase for own occupation rather than speculative investment. This will reduce market size and affect home buying requirement 	Results We have incorporated sustainable housing features (i.e. energy and water savings, improved ventilation and natural lighting) to attract our own occupiers. In addition, we are trying to broaden our collaboration with an extended pool of reputable real estate agents for a wider market reach.

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<p>Risk Type Financial</p> <p>Risk Tolerance Unchanged</p> <p>Key Risk CAPITAL AND LIQUIDITY RISK</p>	<p>Effect</p> <p>In the current environment of high interest rates and dampened sales, it is imperative to manage our finances efficiently. Most pertinently, we require sufficient capital and liquidity to manage ongoing projects as well as to pursue plans for business growth. Without sufficient capital, we are at risk of not delivering on our projects and financial commitments, subjecting the Group to legal action.</p> <p>Response And Mitigating Actions</p> <ul style="list-style-type: none"> • Regularly review our debts, cashflow and liquidity • Maintain an adequate level of cash/cash equivalents through constant monitoring of financial risks • Review and monitor credit facilities while maintaining a healthy gearing ratio at all time • Diversify sources of funds to increase the pool of capital providers • Intensify efforts to monetise our assets by selling completed property units <p>Results</p> <p>Low gearing and turn into net cash position with the completion of projects. Ample room to raise financing for projects and to pursue business growth</p>
<p>Risk Type Regulatory</p> <p>Risk Tolerance Unchanged</p> <p>Key Risk CHANGES IN GOVERNMENT POLICY</p>	<p>Effect</p> <p>As a publicly listed organisation, we are regulated by various policies on governance, health and safety, employee relations and financial management, among others – all of which serve to protect our shareholders and other stakeholders. In addition, our two core businesses – construction and property development – are subject to environmental-related regulations. These policies change according to various factors in our operating environment. It is important to comply with these policies to maintain our licence to operate.</p> <p>Response And Mitigating Actions</p> <ul style="list-style-type: none"> • Close monitoring of changes in government policies • Compliance with changes in policies or additional policies (e.g. keeping abreast and aligned with the amendments of the Malaysia's Employment Act, Workers Minimum Housing Act) <p>In addition, the relevant Departments carry out the following measures:</p> <ul style="list-style-type: none"> • Liaising closely with government officials and external institutions; • Maintaining close working relationships with financial institutions to counter the cooling policies; and • Adopting methods that are less dependent on labour, whilst improving the productivity and quality of construction work <p>Results</p> <p>Management actively monitors changes in the legal and regulatory requirements to adapt and adopt to ensure compliance.</p> <p>Maintaining regular communication with the Authorities.</p>
<p>Risk Type Operational</p> <p>Risk Tolerance Unchanged</p> <p>Key Risk DELAY IN WORK PROGRESS</p>	<p>Effect</p> <p>Since the outbreak of COVID-19 in early 2020, the supply of materials and foreign labour has been disrupted due to production slowdowns and international border closures. Infection of workers at site further reduces the strength of existing workforces. This continues to have a significant impact on work progress in construction projects, affecting the timeliness of their delivery.</p> <p>Response And Mitigating Actions</p> <ul style="list-style-type: none"> • Early detection and quarantine of workers infected by COVID-19 and those in close contact to minimise work disruption • Vaccination drive to reduce COVID-19 infection • Engaged claim consultants for the application of Extension of Time (EOT) • Review and enlarge network of suppliers for materials and labour <p>Results</p> <p><u>COVID-19 Related Risk</u></p> <ul style="list-style-type: none"> • We have defined health and safety policies and procedures. • Constantly raise awareness of health and safety via training. • Seek continuously to adopt safer construction methods and ensure our contractors are up-to-date on best practices. • Enforce controls and regulations on-site. • Health and safety practices including monitoring compliance with standard operating procedures (SOP) issued by the Authorities. <p><u>Operations Related Risk</u></p> <p>Putting in place an actively managed operational risk management system to ensure the products and services meet expectation, quality checks and controls are performed, and the delivery timelines are closely monitored.</p>
<p>Risk Type Operational</p> <p>Risk Tolerance Unchanged</p> <p>Key Risk SAFETY AT THE WORKPLACE</p>	<p>Effect</p> <p>Safety incidents at the workplace result in stop work orders, causing project delays. In addition, any non-compliance with environmental and safety regulations will result in the imposition of penalties and cause reputational damage.</p> <p>Response And Mitigating Actions</p> <ul style="list-style-type: none"> • Train and engage personnel to develop and enforce procedures in accordance with regulations and standards • Regular Safety, Health and Environment meetings with employees and subcontractors to monitor and ensure compliance with regulations <p>Results</p> <p>The Group continues to elevate its safety and health performance through risk assessments.</p>

iii. Internal Audit Function

The roles, responsibilities and activities of the Internal Audit functions are described and detailed on page 49 under Corporate Governance Overview Statement of this Annual Report.

There were neither major weaknesses in the system identified during the year, nor any of the reported weaknesses resulted in material losses or contingencies requiring disclosure in the Group's Annual Report. Those areas of non-compliance with the procedures and policies and those which require improvements as highlighted by the Internal Auditors during the period have been or are being addressed.

iv. Information and Communication

Information critical to meeting Group's business objectives are communicated through established reporting lines across the Group. This is to ensure that matters that require the Board and Senior Management's attention are highlighted for review, deliberation and resolution on a timely basis.

v. Review and Monitoring Process

The Group's management teams carry out monthly monitoring and review of the Group's operations and performance, including financial results and forecasts for all business operations within the Group.

In addition to the above, scheduled and ad-hoc meetings are held at operational and management levels to identify, discuss and resolve business and operational issues as and when necessary. The Board monitors the Group's performance by reviewing its quarterly results and operations and examines the announcement to Bursa Securities. These are usually reviewed by the Audit Committee before they are tabled to the Board for approval.

CONFIDENTIAL REPORTING

The Group's whistleblowing policy enables staff, in confidence, to raise concerns about possible improprieties in financial and other matters and to do so without fear of reprisal. Details of the policy are set out on the Company's website at www.crescendo.com.my. The Audit Committee receives reports on whistleblowing incidents and remains satisfied that the procedures in place are satisfactory to enable independent investigation and follow up action of all matters reported. No major issues have been reported in financial year 2023 (major issues being defined for this purpose as matters having a financial impact greater than RM10,000).

ASSURANCE PROVIDED BY THE EXECUTIVE CHAIRMAN & MANAGING DIRECTOR AND GROUP FINANCIAL CONTROLLER

In line with the Guidelines, the Executive Chairman & Managing Director and the Group Financial Controller have provided assurance to the Board that the Group's risk management and internal control systems have been operated adequately and effectively, in all material

aspects, to meet the Group's business objectives during the financial year under review. The Executive Chairman & Managing Director and the Group Financial Controller have in turn obtained relevant assurance from the business heads in the Group.

REVIEW OF STATEMENT BY EXTERNAL AUDITORS

Pursuant to Paragraph 15.23 of the MMLR, the External Auditors have reviewed this Statement on Risk Management & Internal Control for inclusion in the Annual Report for the financial year ended 31 January 2023.

The External Auditors have reviewed this Statement on Risk Management & Internal Control pursuant to the scope set out in Audit and Assurance Practice Guide ("AAPG 3"), Guidance for Auditors on Engagements to Report on the Statement on Risk Management & Internal Control included in the Governance & Financial Report issued by the Malaysian Institute of Accountants (MIA) for inclusion in the Governance & Financial Report of the Group for the year ended 31 January 2023, and reported to the Board that nothing has come to their attention that causes them to believe that the statement intended to be included in the Report of the Group, in all material aspects:

- (a) has not been prepared 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, or
- (b) is factually inaccurate.

AAPG 3 does not require the external auditors to consider whether the Directors' Statement on Risk Management & Internal Control covers all risks and controls, or to form an opinion on the adequacy and effectiveness of the Group's risk management and internal control system including the assessment and opinion by the Board of Directors and Management thereon. The auditors are also not required to consider whether the processes described to deal with material internal control aspects of any significant problems disclosed in this Report will, in fact, remedy the problems.

CONCLUSION

The Board is of the view that the system of internal control in place throughout the year under review is sound and sufficient to safeguard the shareholders' investment, the interests of customers, regulators, employees and the Group and to facilitate the expansion of its operations. Additionally, the Board regards the risks faced by the Group are within acceptable levels to the business environment within which the Group operates.

There were no material losses or fraud during the current financial year as a result of internal control failures and the Board and Management are continuously taking measures to improve and strengthen the internal control framework and environment of the Group.

This Statement is made in accordance with a resolution of the Board of Directors dated 17 May 2023.