

# Risk Management



In 2010, various market factors, including changes in supply and demand, changes in political climate in various regions, and a weak US dollar, led to high volatility in the prices of agricultural commodities in the industry. Continuous changes in market conditions in our business create risk conditions that could result in potential losses.

As a result of our Group's global operating and financing activities, we are exposed to various types of market risks, including fluctuations in agricultural commodity prices, foreign currency exchange rates, interest rates, counterparty credit and liquidity risk. We use certain financial instruments to hedge the risk of commercial exposures and we do not hold such financial instruments for trade or speculative purposes. These market risk management activities are governed by our risk management system that is designed to identify, quantify and control various risks encountered in our operations and minimise the adverse effects from the unpredictability of financial market risks on our financial performance.

Our system comprises of processes and policies designed to address risks such as commodity prices, foreign currency

exchange rates, interest rates, counterparties' credit and liquidity.

Our risk management system is based on the following main principles:

### **Risk governance structure**

The on-going compliance of these risk management processes and policies are carried out by the heads of the respective operating units. Our risk governance structure consists of a team of employees led by Ms Wong Lai Wan in the Risk Department of our Singapore office, who is responsible for, among others, 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 daily basis and holds weekly 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.

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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 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 and Ms Bianca Cheo (the “Executive Risk Management Team”).

## Setting of risk limits

The Executive Risk Management Team establishes and reviews periodically our overall risk tolerance thresholds. 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 of the market upon 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 volumes and turnover.

The risk tolerance threshold is also based on the counterparty’s background, financial performance and management team. The risk tolerance threshold refers to the maximum potential loss if all trading and operations across all products and geographical regions materialise at the same time.

## 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 systems, procedures and processes. The Risk Department analyses and reviews our daily risk exposure with oversight from the Executive Risk Management Team. Any changes to our risk management systems, standards, practices, policies and risk appetite require the approval of our 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. If additional exposure is required, the trading department approaches the Risk Department to approve an increase in the 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 limit is 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 reviews our internal control systems regularly on an annual basis to ensure compliance with the risk management system. Any material findings such as breaches of trading limits or non-adherence to established risk management policies will be reported to our Audit Committee as and when they arise.