

Statement of Risk Management and Internal Control

The Board of Directors (“the Board”) of Atrium REIT Managers Sdn Bhd, the Manager (“the Manager”) of Atrium Real Estate Investment Trust (“Atrium REIT”) is committed to maintain a sound and effective risk management and internal control system and for reviewing the adequacy and effectiveness of the system. The Board recognises that the system is designed to manage rather than eliminate, the risks of not adhering to the Manager’s policies and business objectives within the risk tolerance established by the Board and the Manager. Therefore, the system provides reasonable but not absolute assurance against the occurrence of any material misstatement, loss, fraud or breaches of laws and rules.

The Board has outsourced the review of the Manager’s internal control and risk management processes to an independent internal auditor firm (Internal Auditors) which reports the results of the review to the Audit Committee (“AC”).

INTERNAL CONTROL

The Board acknowledges that it has a responsibility to maintain a sound and effective system of internal control in order to meet the business objectives of the Manager. The business objectives, amongst others, is to manage Atrium REIT by achieving its mission, i.e. to maximise income in order to reward unitholders with a competitive rate of return for their investments through regular and stable distributions and achieving long-term growth in distributions and Net Asset Value per unit.

Key Features of the Internal Control System Established

- **Organisation Structure and Authorisation Procedures**

The Manager maintains a formal organisation structure with delegation of responsibilities and accountability within the Manager’s Senior Management and staff. It sets out the roles and responsibilities, authority limits, review and approval procedures for the Manager’s various operations.

- **Company Policies and Procedures**

The Manager has documented policies and procedures that are being reviewed and updated to ensure consistency in maintaining the efficiency and effectiveness of the business activities of the Manager and Atrium REIT at all times.

- **Financial and Operational Review**

Board meetings are held on a quarterly basis to discuss and review the business planning, budgeting, financial and operational performances. The quarterly financial statements of the Manager and Atrium REIT containing key financial results, operational performance results and comparisons of performance against budget are presented to the Board for review, consideration and approval.

- **Business Planning and Budgeting Review**

The Board discusses and reviews the business plan, strategies, performance and challenges faced by the Manager and Atrium REIT.

RISK MANAGEMENT

The Board has established a risk management framework for identifying, evaluating, monitoring and reporting of risks. The responsibilities of the Board include reviewing the risk management framework and ensure that the risks are managed within the tolerable limits set. The Board has delegated its role in the review process to the AC.

Responsibility of management include identifying risks that are relevant to Atrium REIT and the achievement of its objectives and strategies, as well as monitoring the risk management framework in accordance with Atrium REIT’s strategies and risk appetite.

Statement of Risk Management and Internal Control (cont'd)

RISK MANAGEMENT (cont'd)

The risk management function is undertaken by the Risk Management Committee, chaired by the Chief Executive Officer, reports its findings to the AC. The AC reviews the effectiveness of the risk management framework annually and ensure that necessary actions have been or are being taken to remedy any significant failings or weaknesses identified from the review. In assessing business risks, the AC also considers the economic, environment and social impact relating to the property investment industry.

The management of the significant risks faced by the Manager and Atrium REIT for the FY2019 are as follows:

Capital and Liquidity Risk

The Trust's capital and liquidity management objectives are to safeguard the Trust's ability to continue as a going concern with sufficient liquidity to meet its business needs and financial obligations, including paying of dividends, interests and loan repayment, and maintain an efficient capital structure in order to maximise returns to the unitholders. To meet the above objectives, the liquidity management strategies include:

- (i) Effective cash flow and treasury management.
- (ii) Ongoing financial monitoring.
- (iii) Regular review of loan covenants to ensure compliance.
- (iv) Maintaining good bankers and investors relations.

Credit Risk

Credit risk arises as a result of economic slowdown and rising costs which affect the ability of tenants to pay their rent. To mitigate Atrium REIT's credit risk exposure, the Manager maintains a policy of collecting security deposits from all tenants which act as collateral. The Manager also performs due diligence to assess the prospect/tenants' ability to meet the rental payments prior to commencing the tenancies. The Manager has implemented credit control measures such as close follow-up on rental arrears with tenants and maintaining good tenant relations to ensure timely rental collections.

Acquisition and Investment Risk

The Manager evaluates proposed investment from financial, legal and technical aspects prior to recommending to the Board. The Manager manages such risk by evaluating potential acquisitions against the approved investment criteria. Upon approval from the Board, a due diligence will be conducted prior to any acquisition. During the year, the Trust acquired Atrium Bayan Lepas 2 and entered into Sale and Purchase Agreements for the proposed acquisition of 2 industrial properties in Bayan Lepas, Penang and Shah Alam, Selangor. There was no divestments of real estate assets during the financial year.

Valuation Risk

The primary method in the valuation of Atrium REIT's properties is the Investment Approach whilst the Cost and Comparison Approach is used as a check. The main parameters for the Investment Approach for valuation are the rental rates, occupancy rates and also operational cost. To ensure that the valuation of properties is sustainable so that Atrium REIT's asset value, profitability and gearing will not be affected, all the above factors will be monitored by the Manager to ensure that they are not compromised. Strategies such as building strong relationship with tenants and increasing tenant mix are implemented to mitigate this risk.

Market Risk

The increase demand for warehouse space is expected to increase with the boom in the e-commerce. It is inevitable that with the increase in demand, new investors and competitors will enter the market to supply this increase in demand; putting pressure on rental rates when the supply starts to outstrip the demand. The Manager expects the market to remain challenging but is confident that the occupancy and rental rate of Atrium REIT's portfolio will remain stable. Some of the strategies implemented to mitigate the risk of over-supply and stiff competition includes upgrading service level and property facilities to meet tenants' requirements.

Statement of Risk Management and Internal Control (cont'd)

Operation Risk

All the buildings structures, mechanical and electrical installations and fire-fighting system need to be monitored consistently to ensure that the buildings remain in good tenatable condition. There are inherent risks whereby the building structures, mechanical and electrical components and the fire-fighting system can be faulty and or damaged through wear and tear and or negligence. The Manager mitigates the risk by carrying out half-yearly building inspection with the Property Manager and the tenants to ensure that proper planned maintenance is undertaken accordingly to maintain the buildings in good tenatable condition. Provision for sinking fund for maintenance and replacements due to normal wear and tear is provided monthly for to address operations requirement.

Regulatory and Compliance Risk

As the Manager is licensed under Capital Markets & Services Act 2007 ("CMSA"), it is imperative to comply strictly with the requirements of the CMSA as well as Securities Commission's ("SC") REITs Guidelines. In this respect, a review was carried out by the Internal Auditors to ensure that the Trust and the Manager complied with all the regulatory requirements including the obligations of the Main Market Listing Requirements relating to REITS.

Cyber and Succession Risks

During the financial year, the AC has identified cyber and succession risks as the new risks for the Manager, and has requested the management to include these risks in the Atrium REIT's Risk Management Framework in next financial year 2020.

INTERNAL AUDIT FUNCTION

The main objective of the audit reviews is to assess the adequacy and effectiveness of the Manager's system of internal control and its risk management. The internal audit plan will be reviewed and approved annually by the AC, taking into account the changing business and risk environment as well as feedback from the Manager. The internal audit findings of the Internal Auditors together with its recommendations and the Manager's action plans will be deliberated on during AC meetings. The recommendations proposed by the Internal Auditors once approved by the AC, will be implemented accordingly by the Manager. The Board will be updated on the results and recommendations of the internal audit review of the Manager's internal control system.

The costs of the internal audit function which was outsourced to PKF Advisory Sdn Bhd amounted to RM13,000, excluding Services Tax and disbursements (2018: RM11,000, excluding Services Tax and disbursements).

The scope of the internal audit function for FY2019 comprised the following compliance reviews:

- a) Securities Commission's Listed REIT Guidelines and
- b) Bursa Securities' Main Market Listing Requirements relating to REITs.

Based on the internal audit methodology conducted by the Internal Auditors, the state of internal control is evaluated as satisfactory and the Internal Auditors has not detected any significant control weaknesses, non-compliances and/or fraudulent activities.

CONCLUSION

The Board is of the view that the Manager's system of internal control and risk management for the year under review, and up to the date of approval of this Statement, is sound and sufficient to safeguard Atrium REIT's assets, as well as Unitholders' investments, and the interests of customers, regulators, employees and other stakeholders.

The Board has received assurance from Chief Executive Officer and Chief Financial Officer that, to the best of their knowledge, the Manager's system of internal control and risk management are operating adequately and effectively, in all material aspects, in relation to managing the operations of Atrium REIT.

Statement of Risk Management and Internal Control (cont'd)

REVIEW OF THIS STATEMENT BY EXTERNAL AUDITORS

The external auditors, BDO have reviewed this Statement on Risk Management and Internal Control for inclusion in the Annual Report of Atrium REIT for the financial year ended 31 December 2019. Their review was conducted in accordance with Assurance Practice Guide 3 ("AAPG 3") Guidance for Auditors on Engagements to Report on the Statement on Risk Management and Internal Control included in the Annual Report, issued by the Malaysian Institute of Accountants ("MIA"). AAPG 3 does not require the external auditors to, and they did not, consider whether this Statement covers all risks and controls, or to form an opinion on the adequacy and effectiveness of Atrium REIT's risk management and internal control system. AAPG 3 also does not require the external auditors to consider whether the processes described to deal with material internal control aspects of any significant problems disclosed in the Annual Report will, in fact, remedy the problems.

Based on their procedures performed, the external auditors have reported to the Board that nothing has come to their attention which causes them to believe that this Statement is not prepared, in all material respects, in accordance with the disclosures required by paragraphs 41 and 42 of the Statement on Risk Management and Internal Control: Guidelines for Directors of Listed Issuers, nor is factually inaccurate.

This Statement on Risk Management and Internal Control was made in accordance with the approval of the Board on 11 February 2020.

Audit Committee Report

The Board of Directors of the Manager is pleased to present the Audit Committee Report for the financial year ended 31 December 2019.

The Audit Committee (“AC”) was established to assist the Board of Directors of the Manager (“the Board”) in fulfilling its responsibilities to review, assess and oversee Atrium REIT’s operations in the areas of financial reporting process, risk management and internal control framework, suitability and independence of external auditors, and an effective internal audit function with the main objective of protecting the interests of Unitholders.

COMPOSITION

The AC comprises three (3) members, all of whom are Independent Non-Executive Directors. The AC members of the Manager as at the date of this report are as follows:

Chng Boon Huat	Chairman
Soong Kwong Heng	Member
Tor Peng Sie	Member

The Board is of the view that the AC members have the relevant expertise to discharge the functions of an AC. The AC has a set of terms of reference defining its scope of authority, in relation to its management of Atrium REIT.

TERMS OF REFERENCE

The AC is governed by the terms of reference as listed below:-

1. Rights and Authority

The AC shall have the following rights and authority as empowered by the Board:

- 1.1 to investigate any activities within its term of reference;
- 1.2 full, free and unrestricted access to any financial information pertaining to the Manager and Atrium REIT;
- 1.3 direct communication channels with the external and internal auditors, as well as all employees of the Manager; and
- 1.4 to obtain external independent professional advice as necessary.

2. Duties

The AC shall undertake the following duties and report to the Board:-

- 2.1 to review quarterly results and year-end financial statements of Atrium REIT and the Company before submission to the Board for approval, focusing particularly on:
 - a) the going concern assumption;
 - b) any changes in or implementation of major accounting policies and practices;
 - c) significant issues arising from the audit including financial reporting issues, significant and unusual events or transactions, and how these matters are addressed;
 - d) compliance with accounting standards, regulatory and other legal requirements; and
 - e) any major judgmental matters.
- 2.2 to recommend for Board’s approval, the nomination and appointment (if any), re-appointment of external auditors and their audit fee;
- 2.3 to discuss the underlying reasons relating to resignation or dismissal of the external auditors, if any;
- 2.4 to discuss with the external auditors, prior to the commencement of audit, their audit plan, and to ensure an effective co-ordination of audit where internal audit is involved;
- 2.5 to review with the external auditors, their evaluation of system of internal controls, their management letter and the management’s responses;
- 2.6 to review the assistance given by employees of the Company to the external auditors;