

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL (CONT'D)

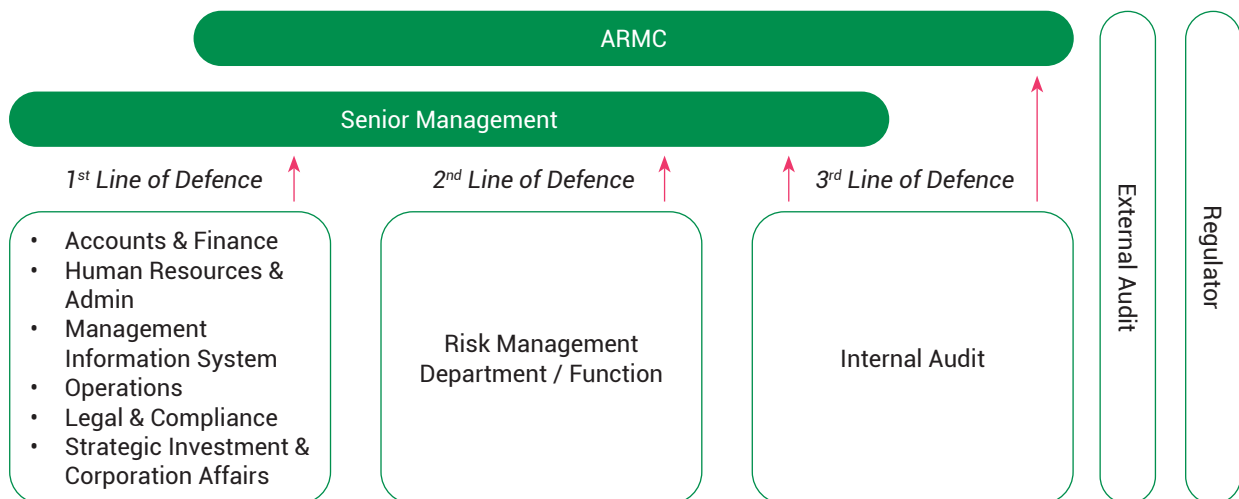
MAIN FEATURES OF RISK MANAGEMENT SYSTEM (CONT'D)

In the event if the Board and ARMC think that existing control is less sufficient, they will develop the appropriate risk treatment strategy to address the identified risks, which include risk avoidance, risk reduction, risk sharing and risk acceptance. In this process, the Board and ARMC will perform a cost-benefit analysis for selecting the most suitable risk treatment approach to ensure that it brings the expected protection/impact within the desired risk tolerance level.

On a semi-annual basis, the Board and ARMC reviews the Risk Register to ensure that the risks identified are current and relevant to the latest business environment and that the risk responses are effective to address the relevant risks within the acceptable risk tolerance level. In this regard, all Head of Departments are required to maintain risk records within their purview and perform regular reporting to the Compliance Officer, who will in turn report to the ARMC accordingly.

Last but not least, the Board and ARMC shall ensure that communication and consultation are present continuously throughout the course of the ERM system. This shall allow all stakeholders to attain a common understanding on KIP REIT's risk management system as well as its overall risk appetite. Where necessary, risk related trainings will be organised to enhance our employees' risk management knowledge and awareness.

ERM Governance Structure



In order to ensure the effectiveness of the ERM, the Board has in place a comprehensive ERM governance structure to monitor the implementation of ERM system within the organisation. Whilst the Board is supported by the External Auditor and governed by the local regulator, it has also established three (3) lines of defence as shown in the figure above.

The first (1st) line of defence, which is also known as operational management, refers to the controls in place at operational levels where each department/function is responsible to own and manage their respective risks within their purview.

For the second (2nd) line of defence, the risk management department/function is tasked to monitor risk management practices and performance within the organisation. They are also empowered to facilitate the top-down communication of risk information to relevant stakeholders. On a semi-annual basis, the Risk Management Working Group ("RMWG") led by the CEO will review the Risk Register and to update the ARMC in the event if there is any emerging risk identified.

The internal audit function serves as our third (3rd) line of defence where it provides independent assurance on the effectiveness of KIP REIT's governance as well as risk management and internal control system which are supported by our 1st and 2nd lines of defence. Internal audit is essential in governing the ERM system as it evaluates and examines the existing controls to identify any internal control deficiencies which require further improvement and enhancement.

Both the Senior Management and ARMC are serving as the governing bodies to oversee KIP REIT's risk management activities, where Senior Management is entrusted to monitor all the three (3) lines of defences while the ARMC is authorised to oversee the internal audit function directly. The ARMC shall also review the adequacy of KIP REIT's risk appetite and tolerance level annually. The Board, who is the highest governing body, remains committed to reviewing KIP REIT's risk management system regularly or as and when necessary.