



STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

Introduction

Pursuant to Paragraph 15.26 (b) of the Listing Requirements and the Malaysian Code on Corporate Governance 2012 (“MCCG 2012”) with regards to the Group’s state of internal control, the Board of Directors (“Board”) is pleased to present below the Group’s Statement on Risk Management and Internal Control during the financial year under review and up to the date of approval of this statement, prepared in accordance with the Statement on Risk Management and Internal Control: Guidelines for Directors of Listed Issuers (“Guidelines”) issued by the Institute of Internal Auditors Malaysia and adopted by Bursa Malaysia Securities Berhad and taking into consideration the recommendations under Principle 6 of the MCCG 2012.

Board’s Responsibility

The Board affirms its responsibility for the Group’s system of risk management and internal control which includes the establishment of an appropriate internal control environment and risk management framework as well as reviewing its adequacy and effectiveness. The system of risk management and internal control consists of financial controls, organizational, operational and compliance controls and risk management processes to safeguard shareholders’ investments and the Group’s assets.

However, in view of the limitations that are inherent in any system of risk management and internal control, the system is designed to manage rather than eliminate, the risk of failure to achieve the Group’s business objectives. Accordingly, the system can only provide reasonable but not absolute assurance against material misstatement or loss.

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

Risk Management Framework

The Board continues to affirm its commitment to ensure adequate stewardship and culture for implementation of effective risk management principles at a holistic level through the implementation of the Group Risk Management Framework (“RM Framework”).

The Group RM Framework sets out the risk management governance, guidelines, processes and control responsibilities and underpins the Group Risk Management Policy (“RM Policy”). It seeks to ensure that there is a consistency to the methods used in managing risks throughout the Group and that risk management efforts are aligned with the Group’s business objectives. It also outlines enhanced and explicit requirements for managing risks and assists in understanding the impact of uncertainties inherent in business decisions. An important objective is to promote a balanced approach to risk that optimizes risk and return.

The Board is assisted by the Risk Management Committee (“RMC”) which is chaired by the Group Chief Executive Officer and comprises representatives from key senior management. The function of the RMC is to drive effective risk management guided by the Group RM Policy and RM Framework to ensure effective identification of emerging risks and management of identified risks through implementation of appropriate controls and risk treatment strategies while being cognizant of the business outlook, opportunities and financial sustainability.

The RMC works closely with the Risk Management Department (“RMD”) to ensure effective and consistent adoption of risk management practices. The RMD meets with the risk owners made up of managers or heads from the divisional units to identify and evaluate the risks related to their areas and to establish the risk profiles of the Group during the risk assessment sessions. The level of risk tolerance of the Group is expressed through the use of a risk consequence and likelihood matrix. Once the risk level is determined, the risk owner is required to implement risk treatment strategies covering management actions and/or activities with target timeline for implementation. The risk owners are to monitor and update their risk profiles on an on-going basis. The update of the risk profiles includes the identification of emerging risks arising from changing business outlook and/or new initiatives being implemented as well as evaluation of the effectiveness of existing controls and risk management initiatives.

The RMC maintains and reviews both the Group top risk and divisional risk profiles with the assistance from the RMD every two months. The Group top risk profiles as well as the emerging risks are presented and deliberated by the RMC to ensure that the overall risks impacting the Group are adequately identified and managed within an acceptable risk appetite. Some of the major risk factors and mitigation actions deliberated during the financial year include market competition and requirements, quality target, supply of manpower, FFB harvesting, delivery and processing. The risk management report is then presented to the Board on half yearly basis. As part of the Board’s efforts to ensure risk management and internal control processes are adequate and effective, risk treatment strategies and internal controls for major risks are periodically reviewed by the internal audit with areas for improvement highlighted and to be implemented by relevant divisional units.

The Board and management inculcate a proactive and sustainable risk management culture by ensuring that employees at different levels would have a better understanding of effective risk management practices through on-going risk communication.

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Key Elements of the Group's Internal Control

An effective check and balance control environment is fundamental for ensuring a sound internal control system in the Group. The Board and Management are committed to maintain an effective internal control environment by continuously enhancing the design of internal control systems to ensure that they are relevant and effective to promote operational agility while ensuring corporate governance and compliance to regulatory guidelines. The key elements and/or features of our Group's internal control system established for maintaining strong corporate governance are as follows:

- The Group's reporting structure incorporating checks and balances is aligned to the business requirements.
- Authority limits are in place for approving capital expenditure and matters on financial, treasury, operations and personnel, keeping potential risk exposures under control.
- Documented policies and procedures are also in place subject to review every now and then to ensure that it maintains its effectiveness to support the Group's business activities.
- Annual budgets are prepared by the Group's operations. Analysis and reporting of variances against budget are presented in the Group's management meetings which act as a monitoring mechanism.
- Quarterly and annual financial statements containing key financial results as well as operational performance results of the Group are prepared and reported to the Board.
- Periodic company briefings with analysts are conducted to apprise the shareholders, stakeholders and general public of the Group's performance whilst promoting transparency and open discussion.
- The Group Chief Executive Officer is involved in the running of the day-to-day business operations by meeting up with both management and operation on a regular basis to monitor the performance and profitability of the Group's businesses.
- Meetings on management accounts results against prior periods are conducted every two months with significant variances explained and appropriate actions taken or plans put in place.
- Management meetings are conducted monthly with the Group Chief Executive Officer and senior management in attendance. The meetings address the major operational performance and challenges as well as inform and update on policies and/or administrative matters.
- The Group has a comprehensive information system that enables the production of timely, reliable and relevant data to enhance management in decision making.
- Guidelines on employment, performance appraisal, training and retention of employees are in place to ensure the Group's ability to operate in an effective and efficient manner.
- The Group has established the safety & health committees at the operating level to address and ensure compliance with occupational safety and health policies and procedures as required by the various authorities.
- The Group undertakes adequate insurance coverage on both its employees and assets to ensure both are sufficiently insured against any mishap that will result in financial or material losses.
- The Intranet Portal is used as an effective dissemination tool to share up-to-date information on development and happenings.
- The Group has initiated the implementation of KPI reporting to drive awareness of shared management responsibility on their contribution towards enhancing the operating performance in achieving the business objectives.
- Internal audit function includes performing regular reviews of business processes to assess the effectiveness of the internal control system and to highlight significant risks impacting the Group with recommendations for improvement.
- Senior management team conducts regular visits to the Group's operations for better understanding to facilitate cognizance in decision-making capability.



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Internal Audit

The Group's Internal Audit Department ("IAD"), reports independently to the Audit Committee ("AC") to provide the Board with adequate assurance it requires regarding the adequacy and effectiveness of risk management, internal control and governance processes.

The IAD carries out its functions in accordance with the annual audit plan approved by the AC each year and it adopts a risk-based approach in executing the audit plan that focuses on major business units and/or operations within the Group. The IAD reports directly to the AC on the outcome of its appraisal of the operational activities. Significant audit findings are presented and deliberated by the AC on a quarterly basis or as appropriate. The IAD also monitors the implementation of audit recommendations in order to obtain assurance that all major risks and controls measures identified have been reasonably addressed by the management in the most effective and timely manner.

Board Review

The Board is of the view that the risk management and internal control system in place throughout the year under review and up to the date of approval of this Statement is sound and sufficient to safeguard the interests of the Group's stakeholders, their investments and the Group's assets. Additionally, the Board regards the risks faced by the Group are within acceptable levels in relation to its business objectives.

There were no material losses or fraud during the year under review as a result of weaknesses in internal control. The management is continuously taking necessary measures to improve and strengthen the risk management and internal control system of the Group.

Review of the Statement by External Auditors

The external auditors have reviewed the Statement on Risk Management and Internal Control pursuant to the scope set out in Recommended Practice Guide ("RPG") 5 (Revised), 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") for inclusion in the annual report of the Group for the year ended 30 June 2017 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 annual report of the Group, in all material respects: has not been prepared 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, or is factually inaccurate.

RPG 5 does not require the external auditors to consider whether the Directors' Statement on Risk Management and 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 Directors and management thereon. The report from the external auditor was made solely for and directed solely to the Board in connection with their compliance with the listing requirements of Bursa Malaysia Securities Berhad and for no other purposes or parties. The external auditors do not assume responsibility to any person other than the Board in respect of any aspect of this report.

The statement was approved by the Board on 17 October 2017.