

# STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

## INTRODUCTION

This Statement on Risk Management and Internal Control by the Board of Directors ("Board") on the Group is made pursuant to paragraph 15.26(b) of the Listing Requirements of Bursa Malaysia Securities Berhad and the requirements of the Malaysian Code on Corporate Governance ("MCCG").

This Statement outlines the nature and scope of risk management and internal control of the Group during the financial year ended 30 June 2018 and covers all Group's operations except for associate companies as guided by the Statement on Risk Management & Internal Control: Guidelines for Directors of Listed Issuers ("Guidelines").

## BOARD'S RESPONSIBILITIES

The Board recognises and affirms its overall responsibility for the Group's system of internal controls, which includes the establishment of an appropriate risk and control framework as well as the review of its effectiveness, adequacy and integrity. It should be noted, however, that such systems are designed to manage rather than to eliminate the risk of failure to achieve business objectives. In addition, it should be noted that these systems can only provide reasonable but not absolute assurance against material misstatement or loss.

There is an ongoing process for identifying, evaluating and managing the significant risks faced by the Group in its achievement of objectives and strategies. The process has been in place during the year up to the date of approval of the annual report and is subject to review by the Board.

The Board is assisted by the Audit Committee in evaluating, assessing and reviewing the adequacy of the Group's system of risk management and internal control.

The key features of the risk management and internal control systems are described below.

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### RISK MANAGEMENT

The Group has in place a database of risks and controls information captured in the format of risk registers. Key risks of major business units are identified, assessed and categorised to highlight the source of risk, their impacts and the likelihood of

occurrence. Risk profiles for the major operating business units are presented to the Audit Committee and Board for deliberation and approval for adoption. Action plans to address key risks were developed and their status of implementation was reported to the Audit Committee and Board of Directors.

The risk profile of the major operating business units of the Group are being monitored by its respective operating department. The risks identified for the Group were considered in formulating the strategies and plans that were approved and adopted by the Board.

### RISK MANAGEMENT FRAMEWORK

On 30 May 2018, the Board has established the Board Risk Management Committee ("BRMC") in line with the step-up practice set out in the MCCG. The BRMC which comprises a majority of Independent Non-Executive Directors, plays a more focused role in the direction and oversight of the Group's risk management framework and policies.

The composition of the BRMC is as follows:-

Name	Designation	Position in the Committee
Laksamana Tan Sri Dato's Setia Mohd Anwar Bin Hj. Mohd Nor ( <i>Retired</i> )	Independent Non-Executive Director	Chairman
Datuk Nozirah Binti Bahari	Independent Non-Executive Director	Member
Datuk Seri Ch'ng Toh Eng	Independent Non-Executive Director	Member
Chin Kim Chung	Non-Independent Non-Executive Director	Member
Lim Poh Yit	Deputy Group Managing Director	Member

As part of the framework, the Management-level Risk Management Committee ("MRMC"), chaired by the Deputy Group Managing Director, has been established to oversee the following:-

- Identifying and communicating to the Board, critical risks the Group faces, their changes and Management's action plans to manage the risks.
- Performing risk oversight activities and reviewing the risk profile of the Group as well as organisational performance.

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- Aggregating the Group's risk position and half-yearly reporting to the Audit Committee and ultimately to the Board on risk situation and status.
- Ensuring the Management of the Company integrates the necessary risk management processes into all business processes to mitigate the identifiable risk.

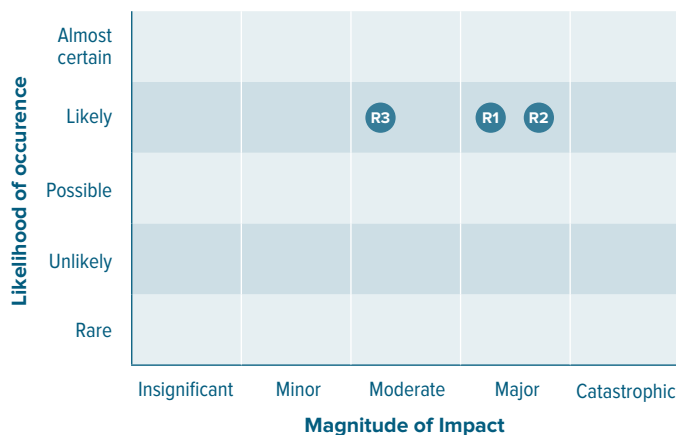
The MRMC meets periodically to assess and evaluates risks that may impede the Group from achieving its strategic and operational objectives, as well as develop action plans to mitigate such risks.

During the financial year under review, the result of the risk updates was deliberated at the MRMC meetings, and the updated risk profile was used as one of the basis to develop a risk-based internal audit plan for the financial year ended 30 June 2018, which was approved by the Audit Committee.

The Audit Committee has undertaken a half-yearly review on the results of risk updates presented by the MRMC, with deliberation on causes, existing controls, impact, and actions planned to address the top risks of the organisation. Result of the risk review was then reported to the Board for endorsement and approval.

Key risks of the group were assessed and recorded in the risk profile for continuous monitoring (see table below). Being in the property and project development businesses, it is inherent that the Group is facing with the key risks such as project progress challenges, product quality expectation and customer relationship; and etc.

The Board and Management have formulated strategy and plans to address the following key risks, among others are:



Risk	Specific Risk	Management Strategy
R1	Project Progress Challenges	<ul style="list-style-type: none"> <li>• Close monitoring on progress report and contractor performance.</li> <li>• Client- consultant meeting and site meeting with contractor to discussion progress and resolve issues faced.</li> </ul>
R2	Low and Slow Sales Response	<ul style="list-style-type: none"> <li>• Joint discussion and strategy development with consultant, advertising agencies, event organizer to strategies product launches.</li> <li>• Perform feasibility studies such as market survey and economic condition to have better understanding on market needs.</li> </ul>
R3	Customer Relationship	<ul style="list-style-type: none"> <li>• Dedicated team is assigned to manage customer expectation.</li> </ul>

### INTERNAL CONTROL

The Board receives and reviews regular reports from the Management on key financial data, performance indicators and regulatory matters. This is to ensure that matters that require the Board and Senior Management's attention are highlighted for review, deliberation and decision on a timely basis. The Board approves appropriate responses or amendments to the Group's policy. Besides, the results of the Group are reported quarterly and any significant fluctuations are analysed and acted on in a timely manner.

Legend	
<span style="color: #0056b3;">●</span>	Extreme
<span style="color: #00728f;">●</span>	High
<span style="color: #4682b4;">●</span>	Medium
<span style="color: #add8e6;">●</span>	Low

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There is a comprehensive budgeting system that requires preparation of the annual budget by all departments. The annual budget which contains financial, operating targets and performance indicators are reviewed and approved by the Deputy Group Managing Director together with the Senior Management before being presenting to the Board.

Issues relating to the business operations are highlighted to the Board's attention during Board meetings. Further independent assurance is provided by the Audit Committee. The Audit Committee reviews internal control matters and update the Board on significant control gaps for the Board's attention and action.

The other salient features of the Group's systems of internal controls are as follows:-

- Quarterly review of the financial performance of the Group by the Board and the Audit Committee;
- Defined organisation structure and delegation of responsibilities;
- Limits of Authority (LOA) matrix that clearly outlines Senior Management limits and approval authority across various key processes;
- Operations review meetings are held by the respective departments to monitor the progress of business operations, deliberate significant issues and formulate corrective measures;
- Adoption of Whistle Blowing Policies; and
- Code of conduct was communicated to all employees of the Group.

### INTERNAL AUDIT FUNCTION

The Board acknowledges the importance of the internal audit function and has outsourced its internal audit function to a professional service firm, as part of its efforts in ensuring that the Group systems of internal controls are adequate and effective. The internal audit activities of the Group is carried out according to an annual audit plan approved by the Audit Committee. The internal audit function adopts a risk-based approach and prepares its audit plans based on risk profile of the Group and significant risks identified. The internal audit provides an assessment of the adequacy and integrity of the Group's system of internal controls, and provides recommendations, if any, for the improvement of the control policies and procedures. The results of the internal audit assessments are reported periodically to the Audit Committee.

The internal audit reports are reviewed by the Audit Committee and forwarded to the Senior Management so that any recommended corrective actions could be implemented. The Senior Management is responsible for ensuring that the necessary corrective actions on reported weaknesses are taken within the required time frame.

A total of RM60,000 excluding Goods and Services Tax and disbursements was spent on internal audit activities for the financial year ended 30 June 2018.

### INTERNAL CONTROL FRAMEWORK

The key elements of the Group's internal control framework are described below:-

#### (a) Integrity and ethical values

The Board believes ethical corporate culture begins from the top which the control environment sets the tone for the Group by providing fundamental discipline and structure.

#### • Code of Ethics and Conduct

The Board has set the tone at the top for corporate behavior and corporate governance. All employees of the Group shall adhere to the Code of Ethics and Conduct of the Group which sets out the principles and standard to guide employees in carrying out their duties and responsibilities to the highest standards of personal and corporate integrity when dealing within the Group and with external parties.

#### • Whistle Blowing Policy and Procedure

The Board has formalised a set of Whistle Blowing Policy and Procedures to provide an avenue for stakeholders of the Company to raise concerns related to possible breach of business conduct, non-compliance with laws and regulatory requirements as well as other malpractices. The Whistle Blowing Policy and Procedures set out the protection accorded to whistleblowers who disclose such irregularities in good faith.

#### (b) Limits of authority and responsibility

Clearly defined and documented lines and limits of authority, responsibility and accountability have been established through the relevant terms of reference, organisational structures and appropriate authority limits, including matters requiring the Board's approval. The corporate structure further enhances the ability of each subsidiary or division, as the case may be, to focus on its assigned core or support functions within the Group.

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### (c) Planning, monitoring and reporting

The following internal control processes have been deployed by the Group:-

- **ISO 9001:2008 Accreditation**

The Construction Division of the Group has been accorded full ISO 9001:2008 accreditation in line with the Group's quest in consistently improving the strength of its internal system;

- **Documented Policies and Procedures**

Internal policies and procedures, which are set out in a series of clearly documented standard operating manuals covering a majority of areas within the Group, are maintained and subject to review as considered necessary;

- **Performance Monitoring and Reporting**

The Group's management team monitors and reviews financial and operating results, including monitoring and reporting of performance against the operating plans. The management team formulates and communicates action plans to address areas of concern;

- **Financial Performance Review**

The preparation of periodic and annual results and the state of affairs of the Group are reviewed and approved by the Board before releasing of the same to the regulators whilst the full year financial statements are audited by the External Auditors before their issuance to the regulators and shareholders;

### REVIEW BY THE BOARD

The Board considered the adequacy and effectiveness of the risk management and internal control process in the Group during the financial year.

The Board's review of risk management and internal control effectiveness is based on information from:-

- Senior Management within the organisation responsible for the development and maintenance of the risk management and internal control framework;
- Self-assessments of each department and functional controls by respective Senior Management to complement the above input in providing a holistic view of the Group's risk and control framework effectiveness; and
- The work by the internal audit function which submits reports to the Audit Committee together with recommendations for improvement.

The Audit Committee will address and monitor the implementation of key risk action plans and any internal control weakness and ensure continuous process improvement.

The Board also received assurance from the Deputy Group Managing Director (DGMD) and the Group Chief Financial Officer (GCFO) of the Company that the Group's risk management and internal control system is operating adequately and effectively, in all material aspects, based on the risk management and internal control system of the Company.

The Board considers the system of internal controls described in this statement to be satisfactory and the risks to be at an acceptable level within the context of the Group's business and operating environment. The Board and Management will continue to take measures to strengthen the risk and control environment and monitor the health of the risk and internal controls framework.

For the financial year under review, the Board is satisfied that the system of internal controls was satisfactory and has not resulted in any material loss, contingency or uncertainty.

The above statement is made in accordance with the resolution of the Board dated 31 October 2018.

### REVIEW OF STATEMENT BY EXTERNAL AUDITORS

As required by Paragraph 15.23 of the Bursa Securities' Listing Requirements and pursuant to the scope set out in Audit and Assurance Practice Guide ("AAPG") 3 (Revised) issued by the Malaysian Institute of Accountants, the external auditors have reviewed this Statement on Risk Management and Internal Control for inclusion in the annual report of the Group for the financial year ended 30 June 2018.

AAPG 3 (Revised) does not require the external auditors to consider whether this Statement covers all risks and controls, or to form an opinion on the adequacy and effectiveness of the Group's risk management and internal control systems.

Based on their review, the external auditors have reported to the Board that nothing has come to their attention that causes them to believe that this Statement is inconsistent with their understanding of the process adopted by the Board in reviewing the adequacy and integrity of the system of risk management and internal controls of the Group.