

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

The Malaysian Code on Corporate Governance required listed companies to maintain a sound system of internal control to safeguard shareholders' investments and Group's assets. Rule 15.26 (b) of the ACE Market Listing Requirements of Bursa Malaysia Securities Berhad ("Bursa Securities") requires directors of public listed companies to include a statement on their risk management and internal controls in their annual reports. The preparation of this statement is guided by Statement on Risk Management and Internal Control: Guidelines for Directors of Listed Issuers.

Responsibility

The Board recognises that it is responsible for the Group's system of risk management and internal control and for reviewing its effectiveness whilst the role of Management is to implement Board policies on risk management and control. The Board is committed to maintain the effective risk management practices, as it understands that such practices are essential in the maintenance of a sound system of internal control.

However, in any system of internal controls, there are inherent limitations that may impede the achievement of the Group's business objectives. Therefore, the system of internal control can only provide reasonable assurance and not absolute assurance against any material misstatement, loss and fraud.

The Board has received assurance from the Managing Director and Chief Financial Officer 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 Group.

Risk Management Framework

Throughout the financial year ended 30 June 2017 and up to the date of approval of this Statement, the Board had identified, evaluated and managed the significant risks faced by the Group by monitoring the Group's operations performance and profitability during the Board meetings. This serves as an on-going process of identifying, assessing and managing risks faced by the Group. The Board, through its Audit Committee, reviews the results of this process, including mitigating measures implemented by Management to address the key risks as identified.

This review mechanism is overseen by the Audit Committee. The process of risk management is also addressed by compilation of risk profiles of each department in the Group. The risk action plans and internal controls that Management has taken and/or is taking are documented in the minutes of the Audit Committee meetings.

The presence of the internal audit function supports this review mechanism and assists the Audit Committee in conducting their review more effectively. Additionally, the Audit Committee also reviews the financial information and reports produced by Management. This financial information and reports also include quarterly financial results, annual report and Audited Financial Statements. In this respect, the Audit Committee, upon consultation with Management, deliberates the integrity of the information and data before recommending to the Board for presenting to the shareholders and public investors.

Key Elements of Internal Control

Apart from the above, the fundamental elements of internal controls that have been ingrained perpetually in the Group's system of internal control are:

- i. Organisation structure defining the hierarchy structure of reporting lines and accountability;
- ii. Limit of authority and approval facilitating delegation of authority and Management succession;
- iii. Compare actual result against budget to monitor and track the Company's performance; and
- iv. ISO 9001:2015 Quality Management System forming the basis of operational procedures of the production processes and a reference point to the Management in furthering their improvement on their operating procedures.

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In making this Statement, the Board had considered Bursa Securities Guidance on Statement on Risk Management and Internal Control for the Group. The Board views that the existing level of system of internal control is reasonable to achieve the Group's business objectives. Nonetheless, the Board recognises that the system of internal control should be continuously improved in line with the evolving business development. It should also be noted that risk management systems and system of internal control are only designed to manage rather than eliminate risks of failure to achieve the business objectives. Therefore, these systems can only provide reasonable and not absolute assurance against material misstatements, frauds and losses.

Internal Audit Function

The Group has outsourced its internal audit function to an independent internal audit service provider to carry out reviews and assess the adequacy and integrity of the system of internal control of the Group. The independent internal auditors report directly to the Audit Committee, who receives reports of issues and recommendations arising from each review. The costs incurred for the internal audit function in respect of the financial year 2017 was RM34,400.00

This Statement was made in accordance with the resolution of the Board dated 7 September 2017.