

STATEMENT ON RISK MANAGEMENT & INTERNAL CONTROL

Board's Responsibility

In compliance to the requirements under Paragraph 15.26(b) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad, the Board of Directors ("the Board") acknowledges its responsibility for a sound System of Risk Management & Internal Controls in the Group, and that it has been established and maintained including reviewing its adequacy and integrity.

In line with the Malaysian Code on Corporate Governance, the Board had on 18 August 2017 re-established a Risk Management Committee ("RMC") of the Board comprising a majority of independent directors and the RMC's Terms of Reference was revised accordingly. The Risk Management Committee (RMC) of the Board is being assisted by a Risk Management Working Group ("RMWG") which is made up of Operation Directors / Managers from all operation sites and is being led by the Executive Directors.

Our Enterprise Risk Management System

The established Enterprise Risk Management Framework is a Committee of Sponsoring Organisations of the Treadway Commission ("COSO") Integrated System based approach that focuses to identify potential risk associated with the group's business operations. It was developed within the Group's risk appetite, put in place and has been reviewed and approved by the Board.

Risks faced by the Group are being identified and thereon appropriate internal controls to minimise or manage these risks are being put in place. The process for identifying and managing significant risks faced within the Group are reviewed in line with the changes in the regulatory, business and external environment. Risks are identified and categorised into four areas: -

The four risk categories are:

- **Strategic Risk** - High-level goals, aligned with and supporting the organization's mission
- **Operational Risk** - Effective and efficient use of resources
- **Compliance Risk** - Governance & Compliance with applicable laws and regulations
- **Financial Reporting Risk** - Reliability of operational and financial reporting

As there are certain limitations to any system of internal control, the system that has been put in place is to manage and minimise the impact but not completely eliminate any risks. Therefore, the system in place can only provide reasonable but not absolute assurance against any material misstatement, fraud or losses.

Responsibilities of the Risk Management Committee

- a) Review and make recommendations to the Board with regards to all possible and current risks in the Group as presented by the Head of the RMWG;
- b) Ensure that the necessary resources are being allocated for an effective risk management;
- c) Ensure that the staff responsible for risk management systems and Head of RMWG perform their duties and all identified risks are updated in the risk register at least twice yearly;

d) Attend Meetings timely to deliberate on risks and to make known to Management / RMWC Head on action or steps that is needed to be implemented to remedy any risk or weak control area and propose timeline;

e) Ensure that Risk Management Working Group are functioning and Risk Management Committee are constantly being updated on action plans and controls being implemented on all identified risk in the group;

f) Ensure framework covers legal and regulatory compliance; and

g) Review the Enterprise Risk Management Framework periodically together with Management to ensure that it is in line with the Strategic Objectives of the Group.

Risk Management Activities

The previous Risk Management Committee had established a Risk Management and Internal Control Framework that sets out the System of Internal Controls within the Group. The framework consists of the procedures needed in identifying risk, the limit of authority including the roles and responsibilities of certain groups and individual towards the risk management and needed Internal controls. The RMC of the Board is currently reviewing this framework and shall be revising it to incorporate the required changes.

The Chairman of the Risk Management Committee is Madam Nirmala Doraisamy and Committee Members are Mr Yap Peng Leong and Mr Jonathan Law Ngee Song and new terms of reference are being establish.

During the financial year, the previous Risk Management Committee carried out risk identification by categorising them into the four categories, namely Strategic, Operational, Financial Reporting and Compliance based on the approach that was presented and approved by the Board in the 4th quarter of 2016. All new risks identified within the Group were compiled into the Group Risk Register 2017 together with the controls and action plans which were in place or to be put in place including the timeline for completion. During this period, previously identified risks were also reviewed to determine if it was still applicable to the business before compiling said risk into the Risk Register.

During the Audit Committee meeting in May 2017, Executive Directors presented to the Audit Committee their new methodology on risk identification for the Group including the benefit of the changes. They went on to present the high risk identified using the new methodology and the controls that will be put in place and its timeline. The AC Chairman noted the risk presented and requested an update be done at the year end.

Action plans and internal control indicated in Risk Register are reviewed for any updates during each management meetings.

System of Internal Control

The Group's Internal Control System in place consist of a series of policies, procedures and controls in the financial and operation processes. The policies, procedures and controls in place have been designed / revised based on the risks identified in the Group. The main objectives of the Internal Control System are to ensure the reliability of the Company's financial statements, promoting operational efficiency and adherence to legal compliances.

Internal Control Activities

During the financial year, Internal Audits were carried out by external professional advisor, BDO Governance Advisory Sdn. Bhd. ("BDO") on areas of Financial Recording to Reporting - Inventory management of the furniture division, Sales and Administrative Expenses, Inventory Management, Health, Safety & Environment and Payroll Processes and Controls. Based on the findings of the internal audit carried out and after the Audit Committee had reviewed the recommendations made by BDO on weaknesses that were identified, the Group had put in place additional internal controls based on Internal Auditor's recommendation to rectify those weaknesses.

Internal Audit

The Group has outsourced its internal audit functions to BDO to review and assess the adequacy and integrity of the Group's internal control system.

The responsibilities of the Internal Auditors are to assist the Risk Management Committee of the Board in discharging their responsibilities by reviewing the adequacy and the integrity of the Group's internal control systems in place and on the Group's level of compliance with applicable laws, regulations, rules, directives and guidelines.

For a detail description of the Internal Auditor's works carried out in 2017, please refer to the Audit Committee's Report on pages 40 to 43 of this Annual Report.

All Internal Audit reports on the findings, recommendations together with management actions are presented to the Audit Committee by BDO and made known to the Board by the Audit Committee Chairman.

Review by the Board

The Board, after reviewing the Audit Committee's report on the findings by the Internal Auditors including controls to be put in place, is assured by Management of the necessary actions being carried out within the timeline.

The Board has also received assurance from the Group Chief Executive Officer / President and the Group Financial Controller that the Group's Risk Management and Internal Control System is in line with the Group's policies and practices in all material aspects.

The Board having reviewed the Group's Risk Management Framework and System of Internal Controls together with the reports on internal audits carried out, is of the view that even though there is no incidence of material losses, further enhancement to the Group's Risk Management Framework is still needed. Thereby the Board will be looking into migrating to a recognized Risk Management of International Standard, with an objective base approach that will enable the Group leverage on value creation.

Weaknesses in the Internal Controls that resulted in Material Losses

There was no internal control failure that had resulted in any material losses or omission within the Group and the Board will continue to take necessary measures to further enhance the Group's System of Internal Control.

Review by External Auditors

External Auditor has reviewed this statement on Risk Management & Internal Control. The review was performed in accordance with the Audit and Assurance Practice Guide 3 ("AAPG 3") issued by the Malaysian Institute of Accountants where the AAPG 3 does not require the external auditor to form an opinion on the adequacy and effectiveness of the Group's risk management and system of internal controls.

The Board of Directors has approved this Statement on 6 April 2018.