

## STATEMENT ON RISK MANAGEMENT & INTERNAL CONTROL

### Board's Responsibility

Pursuant to Paragraph 15.26(b) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad, the Board of Directors are aware of their responsibility in maintaining a sound and effective Risk Management and Internal Control System which is put in place and reviewed for its adequacy and integrity.

In line with the Malaysian Code on Corporate Governance ("MCCG"), the Board has established a Risk & Sustainability Management Committee ("RSMC") comprising a majority of Independent Directors and assisted by a Risk & Sustainability Management Working Group ("RSMWG") made up of Operation Directors/Managers from each subsidiary/business units that is led by the Executive Directors.

### Our Enterprise Risk Management System

The Group's Enterprise Risk Management Framework is reviewed and approved by the Board and guided by the Principles of ISO 31000 Standards. It is an objective-centric based approach that ties with the risk of the Group's Business Strategies and Objectives to keep risk level within the Group's approved risk appetite.

Risk Assessments are carried out on a half yearly basis by the RSMWG at each subsidiary/business unit by taking into considerations the changes in regulatory requirements, industry and the current competitive market situation. Based on the identified risk, the Company/business unit's Risk Register is then established.

Based on the established Risk Register, risks are presented to the Management with proposal of appropriate internal controls to reduce the risk level prior to controls being put in place. Upon obtaining Management's approval for proposed controls to be put in place, a timeline for completion is also given and recorded.

Thereon, the monitoring on timeline for internal controls to be put in place are done at each subsidiary/business unit's monthly performance meeting whereby Management is kept informed on the status of completion. In this meeting, newly identified risks including any incidents on risk are also being highlighted with additional controls being proposed to be put in place to increase the effectiveness of internal controls.

Subsequently, all subsidiary/business unit's Risk Register are submitted to the Group Risk Manager for consolidation and a Group Risk Register is then established. Based on the consolidated Group Risk Register, material risks are presented and reviewed by the Management Committee on the effectiveness of internal controls indicated. Management Committee will then give their feedbacks for any changes/additional controls needed.

Key material risks from the Group's Risk Register will be compiled thereon and presented to the Risk & Sustainability Management Committee ("RSMC") on a half yearly basis. A report of any event on incidents of risk that may have triggered the threshold, review for changes of Risk Framework, Policies and procedures will also be presented to the RSMC for their review, approval and directions at each RSMC meeting held.

### Our Risk Management Governance Structure

EFB has defined the following governance structure for its overall risk management.



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### Activities of the Risk & Sustainability Management Committee

Activities carried out by RSMC during the financial year 2021 are as follows:-

There were 4 (four) RSMC meetings carried out on 19 March, 17 May, 9 August and 17 November 2021.

In these meeting RSMC:-

1.
  - a) Reviewed the statement of risk management and internal control for the 2020 annual report to ensure that the reporting requirements are being adhere to;
  - b) Reviewed the emerging risk on one of the Group's Subsidiary for the loss of market share due to the effects of Covid-19 including the expected drop in the financial performance for the year;
  - c) Reviewed the presented expected impact on the Group's financial performance arising from effects Covid -19 and the mitigation plans by the management; and
  - d) Reviewed and approved the revision made to the Crisis Management & Business Continuity Plans based on the outbreak of Covid-19 and the measures taken that includes new standard operating procedures being implemented.
2.
  - a) Reviewed the revision made to the enterprise risk management policy and framework which includes the revision of the Risk Appetite threshold and the implementation of Key Risk Indicators for all Key Risk in the Group;
  - b) Reviewed the identified risk and the effectiveness of existing control measures and the status of the action plans for implementation;
  - c) Reviewed the effectiveness of the internal control system which will be carried out by the in-house Compliance Team in each subsidiary and thereon reported in each meeting; and
  - d) Reviewed the on-going trainings on Risk Management for the Group as well as for the committee and the Board.
3.
  - a) Reviewed the revised Risk Appetite which is now based on 8 individual risk categories with 4 tolerance levels, there are also 3 indicators with risk threshold that is quantifiable; and
  - b) Requested management to make known the details of any breaches in the risk appetite threshold for all categories in all coming meeting.
4.
  - a) Reviewed the reported risk incidents that had breached the threshold of Risk Appetite including management's action plans to mitigate such breaches; and
  - b) Reviewed the Group's key risk twice a year (first and fourth quarter) and the progress of the recommended additional controls to be put in place by management.
5. The Trainings on Risk Management and Sustainability attended by risk management officers and management for the financial year are as follows:-
  - a) Enterprise Risk Management;
  - b) Bribery: Pitfalls Most Organisations Often Commit - the Importance of Implementing Anti-Bribery Management Systems (ABMS);
  - c) Section 17A MACC Act 2009: What Employers Should Do to Rebut Presumptions of Guilt;
  - d) Sustainability Reporting Ensuring Relevance to Financial Market;
  - e) Sustainability Management; and
  - f) Anti-Bribery/Corruption.

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### System of Internal Control

The Group's System of Internal Control consist of the following measures:-

- a) Group Organisation Chart shows the hierarchy levels whereby the Reporting Structure clearly shows the type of reporting and to whom each level reports to;
- b) Group's Policies and Procedures in place clearly defines the roles & responsibilities in each subsidiary/business unit/department and the Limit of Authority clearly defines the segregation of duties and authority level;
- c) Policies are established at the Group level followed by Standard Operating Procedures being established at the subsidiary/business unit and working instructions are established at departmental levels. These policies and procedures are review for changes annually and when the need arises within the year. All policies and procedures are upkept in the Group Document Management System (Cloud Base) of which is made accessible to the authorised person(s) of each subsidiary;
- d) Group's Enterprise Resource Planning (Purchase, Sales, Delivery and Accounts) are only able to access when authority is given and segregation of duty is set including levels of approvals; and
- e) Group's Payroll System is controlled at the Group level and no changes to the system can be made at the subsidiary level. Segregation of duties is also set in the system with layers of approval.

### Internal Control Activities

Internal Control activities carried out in the current financial year:-

- a) Head of in-house Compliance Team established internal control plans for all subsidiaries in the Group which was to be carried out at every quarter;
- b) Based on this internal control plans, Compliance Team carried out their audit works as planned in each subsidiary. Findings from this audit are then presented to Management together with the corrective actions and timeline for completion;
- c) Strengthening of vendor's Code of Conduct and review on the controls of on-boarding process of vendors;
- d) Review of vendors on compliance to the Code of Conduct for vendors has been planned to be carried out in 1Q2022;
- e) Review the procedures of sub-contractor management of foreign workers was carried out in 2Q of 2021;
- f) Review on Anti-Bribery and Anti-Corruption Corporate Liabilities Internal Control Procedures for the Group was carried out in 3Q of 2021;
- g) Review of policies on whistle blowing and Anti-Bribery/Corruption, establishment of procedure on gift and hospitality and online declaration of receiving & giving of gifts & hospitality; and
- h) Roll out of Anti-Bribery/Corruption training portal for the Group which includes a test on employee's understanding of the Company Anti-Bribery/Corruption policies and procedures.

## STATEMENT ON RISK MANAGEMENT & INTERNAL CONTROL (Cont'd)

### Internal Audit

For the current financial year and based on the yearly internal audit plans, there were 3 (three) cycles of internal audits carried out despite the Government's Movement Control Ordinance lock down period from June to August 2021.

First cycle of internal audit completed in May 2021 was carried out on our Thailand subsidiary, Siam Fibreboard Co. Ltd., Evergreen Fibreboard (Nilai) Sdn. Bhd., AllGreen Timber Products Sdn. Bhd. and Evergreen Fibreboard Berhad. The areas of audit were on Procure to Pay covering Non-Trade Purchase, Accounts Payable and Accounts Receivable. On 17 May 2021, the Internal Audit Report was presented by the outsource Internal Auditor (BDO) to the Audit Committee (AC). The AC reviewed the recommendations made by BDO on weakness that was identified and management's action taken to rectify those weaknesses.

Second cycle of internal audit was completed in August, this was a follow-up on the first cycle audit carried out on Siam Fibreboard Co. Ltd., Evergreen Fibreboard (Nilai) Sdn. Bhd., AllGreen Timber Products Sdn. Bhd. and Evergreen Fibreboard Berhad on Non-Trade Purchase, Accounts Payable and Accounts Receivable.

Third cycle was completed in November 2021, carried out on Siam Fibreboard Co. Ltd., Thailand, PT Hijau Lestari Raya Fibreboard, Indonesia and in Malaysia, Evergreen Fibreboard (Nilai) Sdn. Bhd., AllGreen Timber Products Sdn. Bhd., and Evergreen Fibreboard Berhad. Area of audit was on the Anti-Bribery and Anti-Corruption Corporate Liabilities Procedures for the Group. On 17 November 2021, the Internal Audit Report was presented by the outsource Internal Auditor (BDO) to the AC. The AC noted the gaps that was reported including the recommendations made by BDO on weakness that was identified and management's action taken to rectify those weaknesses immediately.

### Review by the Board

The Board reviewed the Audit Committee's report for each audit cycle's findings by the Internal Auditors and aware of the additional controls to be put in place including the assurance given by Management that the necessary actions will be carried out within the timeline indicated.

The Board have also received assurance from the Group Chief Executive Officer/President and the Group Chief Financial Officer in the board meeting, noting 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 reviewed the Group's Risk Management Framework, Internal Control System, internal audits report from out sourced internal auditors (BDO) together with the assurance from the Group Chief Executive Officer/President and the Group Chief Financial Officer and are assured on the adequacy and integrity of the Group's System of Internal Controls.

### Weaknesses in the Internal Controls that resulted in Material Losses

During the current financial year 2021, there were no major non-compliance issues in the Group except for some minor weakness in our Human Resource engagement of contract workers of which has been fully addressed. There was no failure in our System of Internal Control that had resulted in any material losses or omission within the Group. Nevertheless, the BOD together with Management will continuously take additional measures to further enhance the Group's System of Internal Control.

### Review by External Auditors

Our External Auditors 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 31 March 2022.