

STATEMENT ON RISK MANAGEMENT & INTERNAL CONTROL

Pursuant to 15.26(b) of the Listing Requirements, sufficient and meaningful information needed by shareholders to make an informed assessment of the main features and adequacy of the company's risk management and internal control system has been included in this statement by the Board as follows:-

Features of our Risk Management and Internal Control System

1. Our Group's Enterprise Risk Management System is guided by the Principles of ISO 31000 Standards which 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 and tolerance level.
2. Our Governance on Risk Management consist of a Framework, Risk Appetite & Tolerance Level and a Three Lines of Defence. This "Three Lines of Defense" model provides a simple and effective way to enhance communications on risk management by clarified essential roles and duties as follows:-

1st Line of Defence – Head of Department and Head of Operations/Business Units

The Risk Management Working Group ("RMWG") is responsible to identify risk and carry out risk assessment for implementation of internal controls whilst ensuring risk are within the appetite level set by the board through the risk management committee. RMWG are also be responsible for implementing corrective actions to address process deficiencies or any corrective actions needed. Head of Department reports to Head of Operations/ Business Unit.

Head of Operations/Business Unit is responsible for the entire business unit or company. He/she is responsible for risk matters in all departments and business unit or the company. He/she reports to Management and take instructions from Management on all risk matters. Head of Department and Head of Business Units/ Head of Operations serves as the first line of Control (1st Line of Defence) in a Business Unit or a Company.

2nd Line of Defence – Risk Compliance Officer/Manager of Group (RCO/RCM), Executive Directors and Senior Management (Key Officers)

Risk Officer/Manager appointed by the Group Chief Executive Officer and Group Chief Operating Officer. RO/RM reports to the CEO/COO and the Risk Management Team ("RMT") on all Risk matters and the risk performance activities of each company and business units.

RMT monitor risk activities in the Group through RO/RM who is tasked to facilitate and monitor the implementation for effective risk management practices by Head of Operations/Business units and assists risk owners (Oms & HODs) in defining the target risk exposure. RMT thereon reports to the Risk Management Committee ("RMC") of the Board.

3rd Line of Defense – Internal Auditor (Outsourced)

Internal auditor (IA) which is outsource by the Group provides independent assurance on the effectiveness of governance, risk management, and internal controls, including the manner in which the 1st and 2nd line of defense had achieve risk management and control objectives.

Internal Auditors directly to the Audit Committee of the Board on all internal audit matters and takes instructions for internal audit to be carried from the Audit Committee.

3. In order to achieve the Group's set objective and strategies, Risk identification and assessments are carried out twice a year by RMWG at each business unit / company level by taking into considerations the changes in regulatory requirements, the industry and the current business environment situation. The process described below has been in place for the year under review and is being practice up to the date of approval of this statement for inclusion in the annual report.
4. Firstly, all Companies and Business units in the Group will identify Risk within their operations and thereon assess the impact and likelihood of the inherent risk on the Identified risk. Thereon, analysis will be carried out to the Risk Indicators, Root Causes and the Effects of Risk.
5. Analysis is then carried out on the Mitigations and Controls whereby Existing Controls measures and the effectiveness of these Controls are measured to weigh if additional controls are needed. Lastly, Residual Risk will remain for action by Management.

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

6. After Risk Register is received by Risk Officer, RO shall present all Risk findings to RMT for their consideration on the Residual Risk action. Upon presentation of Residual Risk by RO, Management Team will give their decision on action to be taken on Residual Risk if it is to be accepted, transferred or terminated. RO will then inform all Head of Operations and set a timeline for completion of Action on Residual Risk.
7. Thereafter, RO shall compile all risk submitted by Subsidiaries/Business Units and establish a Group Risk Register ("GRR").
8. From this GRR, all significant risk (High Risk based on the Heat Map) which may potentially derail the Group's Objective and Strategies shall be presented to the RMC for their review and action.
9. Thereon, the monitoring on timeline for internal controls to be put in place for Residual Risk are done at each subsidiary/business unit's and presented in monthly performance meeting whereby Management is kept informed on the status of completion.
10. Key material risks from the Group's Risk Register will be compiled thereon and presented to the Risk & Management Committee ("RMC") 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 RMC meeting held.
11. The process of reviewing the risk management and internal control system by RMC and by RMT confirming that necessary actions have been or are being taken to remedy any significant failings or weaknesses identified from the review carried out.
12. The review on the adequacy and effectiveness of the risk management and internal control system is undertaken by BDO Governance.

Internal Control System Activities

1. Compliance audit activities carried out in the current financial year 2022 by in-house Compliance Team in the Group in the following areas of :-
 - a) Regulatory Requirements – Valid Work Permits & Maximum Working Hours;
 - b) Anti-Bribery and Anti-Corruption – Compliance to the Policy;
 - c) Transfer Pricing – Required TP Documentations;
 - d) Foreign Exchange Policy – Adherence & Controls; and
 - e) Fraud – Preventive Measures.
2. As a result of the review on the Internal Controls findings from audit carried of which was presented to Management, corrective action and enhancement to policies and procedures were carried out as follows:-
 - a) Review of our Anti-Bribery and Anti-Corruption Policy where enhancement to the Online Declaration for Receiving and Giving of Gift & Entertainment were done and the Roll Out of the Online Training and Awareness on Anti-Bribery/Corruption Policies and Procedure for Employees and Vendors which also includes acknowledgement for all companies in Malaysia;
 - b) Review of our Code of Conduct & Business Ethics Policy for inclusion of clauses on Insider Trading, Abuse of Power and Human Rights;
 - c) Review of our Whistle Blowing Policy for enhancement to the definition of Unethical Conduct was carried in order for the Group to have a clearer understanding to this definition;
 - d) Review on the Group's Limit of Authority on enhancement to the existing authority given based on the Internal Auditor's recommendation; and
 - e) Review and approval by the Board on the Risk Appetite and Tolerance Level for the Group including the reporting of any breaches by each company/business unit.

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

Internal Audits

For the current financial year and based on the internal audit plans, there were 4 (four) internal audits carried out as follows:-

- 1) First cycle of internal audit actually started in April 2021 where the Board had received emails from a Whistle-blower. The Whistle-blower had claimed that there were misconducts in one of the Company which breached the international and local laws. In view of such allegation in the whistle-blower's email to the Board, the Audit Committee engaged BDO Governance Advisory Sdn. Bhd. services to carry out an agreed upon procedures to independently review and assess the validity of the allegations made and thereon recommend the area of improvements. Summary of allegation raised by the Whistle-blower were review by BDO and the report on findings was then presented by BDO to the Audit Committee of the Board. As there were no evidence of allegations made by Whistle-blower, AC reviewed the recommendations made by BDO on the weakness discovered and gave management a timeframe to completely rectify those weaknesses.
- 2) Second cycle of the internal audit was carried out on the Anti-Bribery and Anti-Corruption ("ABAC") Corporate Liabilities Procedures for the Group in accordance with the Internal Audit Plan 2022. The objectives were to assess the adequacy and test the integrity of the system of internal controls, assess the level of compliance with policies and procedures and for Internal Auditor to recommend for best practices and identify any potential areas for improvement in the effectiveness and efficiency of the processes. Following areas were reviewed:-
 - a) Assessment on senior management commitment to promote culture of integrity within the organisation and ensure lines of authority for overseeing the anticorruption compliance programme are appropriate;
 - b) Assessment on corruption risk register;
 - c) On-boarding due diligence for entering into any business relationship/hiring;
 - d) Conflict of interest declaration mechanism;
 - e) Mechanism in place for declaration, tracking and monitoring of any procurement/payments involving gifts, hospitality, entertainment expenses and other facilitation received or given, e.g., Vendor & Employee Declaration and Anti-Corruption Clauses in Letter of Award;
 - f) Communication and awareness of ABAC to stakeholders; and
 - g) Whistleblowing procedures on reported ABAC incidences.
- 3) Third cycle of the internal audit was an Internal Control Review on Customer Management and Sales & Marketing for Evergreen Fibreboard Berhad ("EFB") in accordance with the Internal Audit Plan 2022. Reason for audit only carried out in EFB instead of the Group is because the Group's Sales and Marketing transactions are handled by EFB. The objectives of the review were to assess the adequacy and test the integrity of the system of internal controls and the level of compliance with policies and procedures including for Internal Auditor to recommended best practices; and identify any potential areas for improvement in the effectiveness and efficiency of the processes. Following areas were reviewed:-
 - a) Anti-Bribery and Anti-Corruption procedures for salesperson and sales agent;
 - b) Evaluation, approval and acceptance of new customers;
 - c) Credit evaluation and credit limits granted to new and existing customers;
 - d) Sales order and invoice processing;
 - e) controls over return, refund, write-off, discount, cancellation and adjustment;
 - f) Customer complaints; and
 - g) Sales commission policy and procedures.
- 4) Fourth cycle of the internal audit was carried out on the Environment, Social and Governance to assess the adequacy of the Company's sustainability disclosures and practices against Bursa's Main Market Listing Requirements("MMLR") as well as to assess the compliance readiness of the company's sustainability disclosures and practices against the Malaysia Code on Corporate Governance 2021("MCCG") and identify any potential areas for improvement in the effectiveness and efficiency of the disclosures and practices. Following are the areas that were reviewed:-
 - a) Company's sustainability disclosures against Bursa's existing MMLR;
 - b) Company's sustainability disclosures against Bursa's new MMLR (as at 26 Sept 2022);
 - c) Company's implementation on sustainability disclosures based on Bursa's existing MMLR;
 - d) Company's disclosures and implementation against MCCG2021 on Practice 4.1 to 4.5; and
 - e) The reporting metrics for relevancy, accuracy, timeliness and consistency.

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

The AC noted the gaps that was reported including the recommendations made by BDO on weakness that was identified including advising management of immediate action that required to be taken to rectify those weaknesses for all reviews carried out and completed during the financial year ended 2022.

Review by the Board

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

The Board have 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 also reviewed the Group's Risk Management Framework and Internal Control System through the Audit Committee and the internal audits report from the 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 Internal Control System.

Weaknesses in the Internal Controls that resulted in Material Losses

During the current financial year 2022, there were no major non-compliance issues in the Group except for some minor weaknesses which has been fully addressed by enhancement to some policies and procedures.

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 Internal Control System.

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 internal control system.

The Board of Directors approved this Statement on 18th April 2023.