

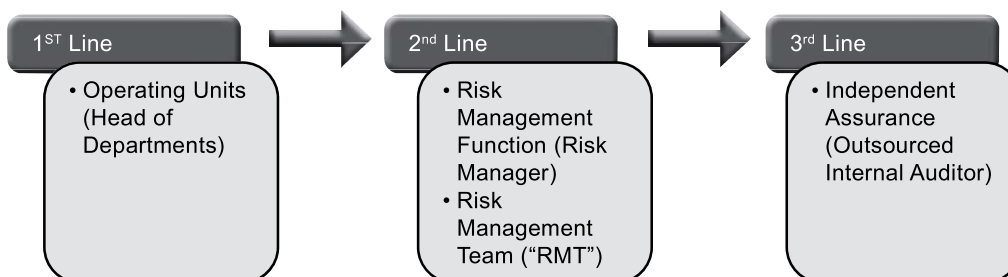
# STATEMENT ON RISK MANAGEMENT & INTERNAL CONTROL

Pursuant to 15.26(b) of the Listing Requirements of Bursa Malaysia, 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 have been included in this statement by the Board as follows: -

Features of our Risk Management and Internal Control System

1. The Group's Enterprise Risk Management System is guided by the Principles of ISO 31000 Standards, an objective-centric based approach that ties the risk of the Group's Business Strategies and Objectives;
2. The Group's Risk Appetite and Tolerance Level are reviewed and approved by the Board to keep risk level within the limits approved;
3. A clear organisation structure that explains the reporting line of the Risk Management Functions at Group and Subsidiary Level to ensure that there is a clear understanding of the reporting line for Risk Registers;
4. A Risk Reporting Timeline which allows personnels responsible for risk to monitor their reporting responsibilities;
5. The Group's Governance is based on a "Three Lines of Defense" at the Subsidiary and also at the Group level that provides a simple and effective way to enhance communications on risk management by clarified essential roles; and

## At the Group Level



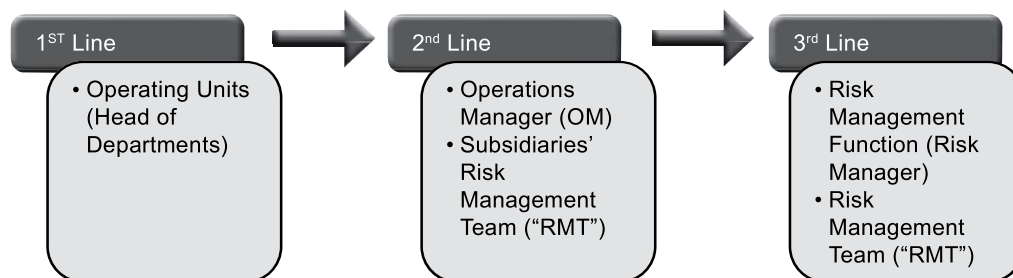
**The 1st Line of Defense** is the Operating Units where the Head of Departments ("HOD") are responsible for managing risks and system of internal controls within their respective functions on a day-to-day basis. To assist the HODs, personnel within their departments will be identified and appointed as Risk Officers to identify, assess and manage the departments' risk register.

**The 2nd Line of Defense** is the Management Oversight where the risk management function assumes overall responsibility for the implementation of the Framework and its continued application in respective entity. The Chief Executive Officer ("CEO") provides leadership and direction to Management via RMT, and ensures alignment of the Group's practices to the risk management policy. The Board maintains its oversight via the Risk Management Committee (RMC).

**The 3rd Line of Defense** is our Independent Assurance (currently BDO). The Internal Audit Function provides the RMC with a reasonable independent assurance on the effectiveness and efficiency of the Framework as part of EFB's system of internal controls to manage risks of failure to achieve the Group's business objectives. The Board, through the RMC provides governance, guidance and oversight over Management's activities in managing key risk areas and to ensure that the risk management process is in place and functioning effectively.

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

### At Company/Subsidiary Level



**The 1st Line of Defense** is the Operating Units where the HODs of the Subsidiaries are responsible for managing risks and system of internal controls within their respective functions on a day-to-day basis. To assist the HODs, personnel within their departments will be identified and appointed as Risk Officers to identify, assess and manage the departments' risk register.

**The 2nd Line of Defense** is the Management Oversight where the Operations Manager of subsidiary assumes overall responsibility for the implementation of the Framework at subsidiary level.

**The 3rd Line of Defense** is set at Group Level where the risk management function assumes overall responsibility for the implementation of the Framework at Group Level as per the 3rd-Line of Defense stated above.

6. During the financial year 2023 as a result of an Internal Audit carried out on the Group's Enterprise Risk Management System which had some weaknesses, the Group Enterprise Risk Management System was reviewed by an External Consultant with the objective to enhance and streamline the Risk Management (RM) processes within the subsidiaries and the Group, to strengthen the knowledge and expertise of managing risk amongst the Group's Risk Management Team; to benchmark risk management's policies and procedures with best practices; to set a stronger Corporate Governance structure throughout the Group and to improve the sustainability in RM practices by reviewing the structured Risk Management processes in place. Review was carried out and completed in 4Q2023 and the Group is currently in the midst of closing the gaps and carrying out the necessary changes to the RM Framework after the necessary training was carried out throughout the Group.

### Internal Compliance Audit Activities

Internal Compliance Audit activities was performed every quarter during the financial year 2023 by each subsidiary's In-house Compliance Audit Team. Internal Compliance Audit Team performed audits in the following areas of: -

- a) Compliance – On Labor Laws Regulations & Statutory Requirements;
- b) Maintenance system – On Preventive & Corrective;
- c) Purchasing Management (On Direct / Indirect Material);
- d) Store management – On Supply Chain & Security;
- e) Account & Finance Control;
- f) Production & Quality Management;
- g) Sales & Shipping Management; and
- h) Warehouse Management.

Based on the audit carried out in these areas for Internal Controls, findings from the audit were presented to Management. Review and enhancement to the Policies & Procedure in these areas was instructed to be carried out by Management as corrective action to close the gaps with a timeframe for completion.

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

## Internal Audits Activities

Based on the internal audit plans for financial year 2023, there were 3 (three) internal audits performed in the Group by our Internal Auditors, BDO Governance Advisory Sdn. Bhd. (BDO).

1. The first cycle of the internal control review for the financial year commenced in the 1Q2023 and was presented to the Board via the Risk Management Committee in May 2023. The review was on Risk Management function of the Group whereby the objectives of the review was to: -
  - a) Assess the adequacy of risk management controls established by Management;
  - b) Assess compliance with policies and procedures and recommended best practices; and
  - c) Identify any potential areas for improvement in the effectiveness and efficiency of the processes.
2. The scope was to review the Group's: -
  - a) Risk Management Framework;
  - b) Risk Management structure and the respective roles of the key personnel involved;
  - c) Implementation of risk management processes;
  - d) Monitoring and reporting activities; and
  - e) Procedures for re-evaluation of existing risks and identification of new or emerging risks.
3. The second cycle of the internal control review commenced in the 2Q2023 and was presented to the Board via the Risk Management Committee in August 2023. The internal control review was on the Group's Compliance Function whereby the objectives of the review was to: -
  - a) Assess the adequacy and test the integrity of the system of internal controls;
  - b) Assess compliance with policies and procedures and recommended best practices; and
  - c) Identify any potential areas for improvement in the effectiveness and efficiency of the processes (if any).
4. The scope was to review the Group's: -
  - a) Governance of the compliance function within the Group and its subsidiaries; and
  - b) Effectiveness of the tracking and monitoring mechanism on required licenses and permits.
5. The third cycle of the internal control review commenced in the 3Q2023 and was presented to the Board via the Risk Management Committee in November 2023. The internal control review was specifically Sales to Receipt, Accounts Payable and Information Technology General Controls in PT Hijau Lestari Raya Fibreboard in Indonesia and the objectives of the review was to: -
  - a) Assess the adequacy and test the integrity of the system of internal controls;
  - b) Assess the compliance with policies and procedures and recommend best practices; and
  - c) Identify any potential area for improvements in the effectiveness and efficiency of the processes.
6. The scope was to review the Company's: -
  - a) Sales to Receipt;
  - b) Accounts Payable; and
  - c) Information Technology General Controls.
7. After each review carried out, BDO compiles its findings with recommendations of improvements to be put in place with timeline given for its completion and present to the Audit Committee of the Board.
8. The Audit Committee noted the gaps that was reported including the recommendations made by BDO on the weaknesses that was identified in the areas reviewed 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 2023.

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

### **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 recommended to be put in place including the assurance given by Management that the necessary actions recommended will be carried out within the timeline given.

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, the Board is 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 financial year 2023, there were no major non-compliance issues in the Group except for some minor weaknesses which have 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 necessary 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 16 April 2024.**