

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

BOARD RESPONSIBILITY

The Board is committed to establish and maintain a sound, effective and efficient system of risk management and internal control to safeguard shareholders' investment and the Group's asset. There is an ongoing review process undertaken by the Board to ensure adequacy and integrity of the system mentioned.

The system of risk management and internal control is designed to identify and manage the Group's risk within the acceptable risk tolerance, rather than to eliminate the risk of failure in achieving the Group's corporate objective in accordance with the Group's strategy. Accordingly, it can only provide reasonable assurance but not absolute assurance against material misstatement, financial loss or fraud.

RISK MANAGEMENT GOVERNANCE

The Board regards risk management as an integral part of all business operations. Hence, the Board explicitly assumes the responsibility of identifying principal risks and ensures the implementation of a dynamic system to manage risk exposure within the acceptable level of tolerance.

To fulfill its oversight responsibility, the Board, as a whole or through delegation to the Risk Management Committee ("RMC"), reviews the adequacy and integrity of the Group's risk management system which encapsulates the key processes of risk identification, assessment, mitigation, monitoring and reporting.

The members of RMC, comprising of three Independent Non-Executive Directors and two Executive Directors, are as follows:

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|-----|------------------------|------------|
| (1) | Dato' Lim Han Boon | ~ Chairman |
| (2) | Tan Sri Rainer Althoff | ~ Member |
| (3) | Datuk Dr. Norma Mansor | ~ Member |
| (4) | Dato' Lee Kim Meow | ~ Member |
| (5) | Lim Cheong Guan | ~ Member |

A Risk Working Committee ("RWC") has been formed in May 2013 to facilitate the group-wide risk management initiative from an operational perspective. RWC serves as the driving force behind the routine risk management activity. Its main function encompasses provision of regular feedback on risk factors' status for informed management decision making, execution of appropriate risk mitigation measures and progress monitoring thereof, and identification of new and emerging risk factors.

RWC is headed by an Executive Director and comprises of heads of business units or support functions, who are risk owners themselves, as members.

RISK MANAGEMENT SYSTEM

At the Group level, inherent risk factors arising from business operation are continuously identified. These identified risk factors are incorporated into the risk register and individually rated as Extreme, High, Medium or Low risk. The rating process is guided by a matrix of possibility of occurrence and the associated impacts, of which both financial and non-financial consequences are duly considered. Thereafter, owners of these risk factors will drive the implementation of risk mitigation measures towards achieving a residual risk that is within the acceptable tolerance.

Progress updates on the mitigation measures will be furnished on a quarterly basis by risk owners for deliberation at the RWC meeting from an operational perspective. Adequacy and effectiveness of the mitigation measures will be assessed and further enhanced where necessary. In addition, any identified emerging critical risk factors will be incorporated into the risk register and managed in accordance to the Group's risk management methodology. Outcome of RWC meetings will subsequently be escalated upwards to the RMC for further deliberation in a strategic manner. Direction of mitigation measures will be fine-tuned as it deems fit to ensure action plans are on track in addressing the significant risk factors. This approach creates a robust risk management system that is self-sustaining and will continue to evolve in response to changing business environment.

SIGNIFICANT RISK

As depicted in the Group's risk management framework, risks are broadly categorized into the aspects of Business, Information, Production, Credit, Financial, Operational, Information System and Human Resources. Identified individual risk factors under the broad risk categories have undergone comprehensive reviews in line with the Group's risk management methodology.

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For financial year ended 31 August 2018, the key risks that warrant highlighting are as outlined below:

1. Business

Execution of Merger and Acquisition exercises poses certain associated risks, notably the evaluation of target company and its subsequent integration with the Group. Various measures such as M&A procedures, strengthening internal management team's capability to handle operations after take-over and engaging external adviser for further advice have been carried out. M&A policies are still in the midst of being formalized.

2. Production

Due to unforeseen circumstances, the Group's factory production lines can face unplanned downtimes and thus result in productivity and financial losses. The 3 major risk factors which potentially contribute to the above are identified as fire outbreak, flooding and water shortage. Ongoing mitigation measures are implemented and tested by the Group to curb occurrences of these risk factors to prevent interruption to production or temporary shutdown of factory.

3. Information System

The Group's business may be vulnerable to security breaches to key systems, assets and facilities resulting from cyber vandalism or sabotage. Potential disruptions to operational systems or destruction of facilities from such security breaches can adversely affect the Group's reputation, business and financial result. To mitigate the risk, the Group is vigilant on potential cyber threats and has been continuously upgrading and enhancing the Group's security system.

4. Financial

As an export-oriented manufacturing entity, the Group's financial performance is exposed to the risks of fluctuation in foreign currency exchange rates and volatility in commodity prices; particularly the main raw material in glove manufacturing which are natural rubber latex and nitrile latex. Major movements in key foreign currency exchange rates, such as US Dollar, and the related commodity prices will create a short-term impact on the Group's financial performance due to time lag effect of the cost pass-through mechanism. The Group is thus constantly monitoring these risk factors and endeavors to achieve an effective and efficient cost pass-through mechanism to minimize the impact on its financial performance caused by macro factors.

INTERNAL CONTROL GOVERNANCE

The Management team, led by Executive Chairman, Managing Director and Executive Directors, comprises experienced personnel who are subject matter experts in their own specialized fields. These individual members in the Management team are held accountable for the conduct and performance within their assigned business units/ support functions. Internal control principles are strongly advocated and thus embedded into the various day-to-day operational policies and procedures of the business units/ support functions concerned. At regular intervals, these assigned business units/ support functions will conduct management meetings for the business objectives of, among others, performance assessment, action plan progress monitoring and feedback for improvement.

To fulfill its oversight responsibility, the Audit Committee ("AC") is committed to review the adequacy and effectiveness of the Group's internal control system. In this respect, the Group's Internal Audit Department ("IAD") has been set up in financial year ended 31 August 2003 to undertake the obligation to provide control assurance services to the Group.

The External Auditor provides further assurance to the AC in the form of annual statutory audit of the financial statements. Areas of concern identified during the course of external audit examination will be brought to the attention of the AC through management letters and discussion at AC Meeting.

INTERNAL AUDIT FUNCTION

The Group has in place an in-house IAD which provides to the Board, through the AC, independent assessment and assurance on the adequacy and effectiveness of the Group's system of internal controls.

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The scope of work of IAD encompasses the examination and evaluation of the adequacy, existence and effectiveness of the system of internal control, risk management framework and corporate governance of the group, which include, inter alia, the following:

- Reviewing the reliability and integrity of financial and operating information and the means used to identify, measure, classify and report such information;
- Evaluating the system established to ensure compliance with policies, plans, procedures, laws, and regulations which could have significant impact on operations;
- Examining the means of safeguarding assets and, as appropriate, verifying the existence of such assets;
- Assessing the economy and efficiency with which resources are employed;
- Appraising operations to ascertain whether results are consistent with established objectives and goals and whether the operations are being carried out as planned;
- Report significant issues related to the business and operational processes for controlling the activities of the Group together with recommendations for improvements by issuing periodic audit reports summarizing results of audit activities and follow-up reports on timely basis to AC and management; and
- Assist in the investigation of significant suspected fraudulent activities and notify the AC and Top Management of the results.

The audit reports are presented and tabled at AC meetings quarterly to preserve its independence and objectivity. Significant internal audit findings and status update on outstanding management action plan will be brought to the attention of AC. If deemed necessary, management representative will be required to attend AC meeting to provide explanation and propose an action plan on the unresolved issues.

REVIEW OF EFFECTIVENESS

The Board is dedicated to operating a sound system of risk management and internal controls, and recognizes that the system must continuously evolve to support the progressive business growth of the Group.

The process for identifying, evaluating and managing risks as outlined in this Statement has been in place for the year under review and up to the date of approval of this statement. During the financial year ended 31 August 2018, a number of improvements to internal control gaps has been implemented. There has been no material adverse impact to the financial performance of the Group as a result of the internal control gaps detected.

The Board, with the assurance received from the Executive Chairman, Managing Director and its Executive Director, concludes that the Group's risk management and internal control system is operating adequately and effectively, in all material aspects.

This statement does not include the state of internal control in associate companies, which has not been dealt with as part of the Group and is made in accordance with a resolution of the Board of Directors dated 11 October 2018.

REVIEW OF THE STATEMENTS BY EXTERNAL AUDITORS

The External Auditors have performed limited assurance procedures on this Statement on Risk Management and Internal Control pursuant to the scope set out in Audit and Assurance Practice Guide ("AAPG") 3, Guidance for Auditors on Engagements to Report on the Statement on Risk Management and Internal Control included in the Annual Report issued by the Malaysian Institute of Accountants for inclusion in the Annual Report of the Group for the FY2018, and reported to the Board that nothing has come to their attention that causes them to believe that this Statement included in the Annual Report is not prepared, in all material respects, in accordance with the disclosures required by Paragraphs 41 and 42 of the Statement on Risk Management and Internal Control: Guidelines for Directors of Listed Issuers, nor is the Statement factually inaccurate.

AAPG 3 does not require the External Auditors to consider whether the Directors' Statement on Risk Management and Internal Control covers all risk and controls, or to form an opinion on the adequacy and effectiveness of the Group's risk management and internal control system including the assessment and opinion by the Directors and Management thereon. The report from External Auditors was made solely for, and directed solely to the Board of Directors in connection with their compliance with the Bursa Malaysia Securities Berhad Main Market Listing Requirements and for no other purposes or parties. The External Auditors do not assume responsibility to any person other than the Board of Directors in respect of any aspect of this Statement.