

# STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

The Statement on Risk Management and Internal Control is made in accordance with Paragraph 15.26 (b) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad (“Bursa Securities”) and guided by the Statement on Risk Management and Internal Control - Guidelines for Directors of Listed Issuers. This Statement outlines the nature and scope of the enterprise risk management and internal control systems within the Group during the year under review.

## BOARD RESPONSIBILITY

The Board is committed to establishing and maintaining a sound, effective and efficient system of enterprise risk management and internal control to safeguard shareholders’ investment and the Group’s asset.

The enterprise risk management and internal control system are designed to identify and manage the Group’s risks in order to achieve the Group’s business objectives. The Board is aware that the enterprise risk management and internal control system can only provide reasonable and not absolute assurance against the risk of material loss or occurrences of unforeseeable circumstances.

## RISK MANAGEMENT GOVERNANCE

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

To fulfil its oversight responsibility, the Board, through delegation to the Board Risk Committee (“BRC”), reviews the adequacy and integrity of the Group’s enterprise risk management system which includes the key processes of risk identification, assessment, mitigation, monitoring and reporting.

The members of BRC, comprising four Independent Non-Executive Directors are as follows:

1. Datuk Noripah Kamso (Chairman)
2. Tan Sri Rainer Althoff
3. Dato’ Lim Han Boon
4. Datuk Dr. Norma Mansor

In addition, a Risk Management Committee (“RMC”) was formed in May 2013 to facilitate the risk management initiative at the Management level. RMC serves as the driving force behind the day-to-day risk management activities. Its main functions encompass provision of regular feedback on status of risk factors to facilitate informed management

decision making, execution of appropriate risk mitigation measures and progress monitoring thereof, as well as identification of new and emerging risk factors.

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

Due to the Group’s rapid expansion of its business and manufacturing operations across different regions, a Global Risk Management Structure was established across the regions where the Group operates. The establishment of Risk Working Committees (“RWC”) led by respective Country Head and Joint Manufacturing Council member acts as an accountable point of contact for an enterprise risk at the senior leadership level, who coordinates efforts to mitigate and manage the risk with the person in charge who owns whole or part of the risk to ensure effective full coverage of risk assessment of all business units locally and globally.

## ENTERPRISE RISK MANAGEMENT SYSTEM

The Group’s Enterprise Risk Management Framework is set up in accordance with ISO 31000:2018 Risk Management Guideline where risks arising from the business and manufacturing operations are continuously identified. These identified risks are incorporated into the risk register and are assessed to determine if the risk rating is Extreme, High, Medium or Low. 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 risks will drive the implementation of risk mitigation measures towards achieving a residual risk that is within the acceptable tolerance.

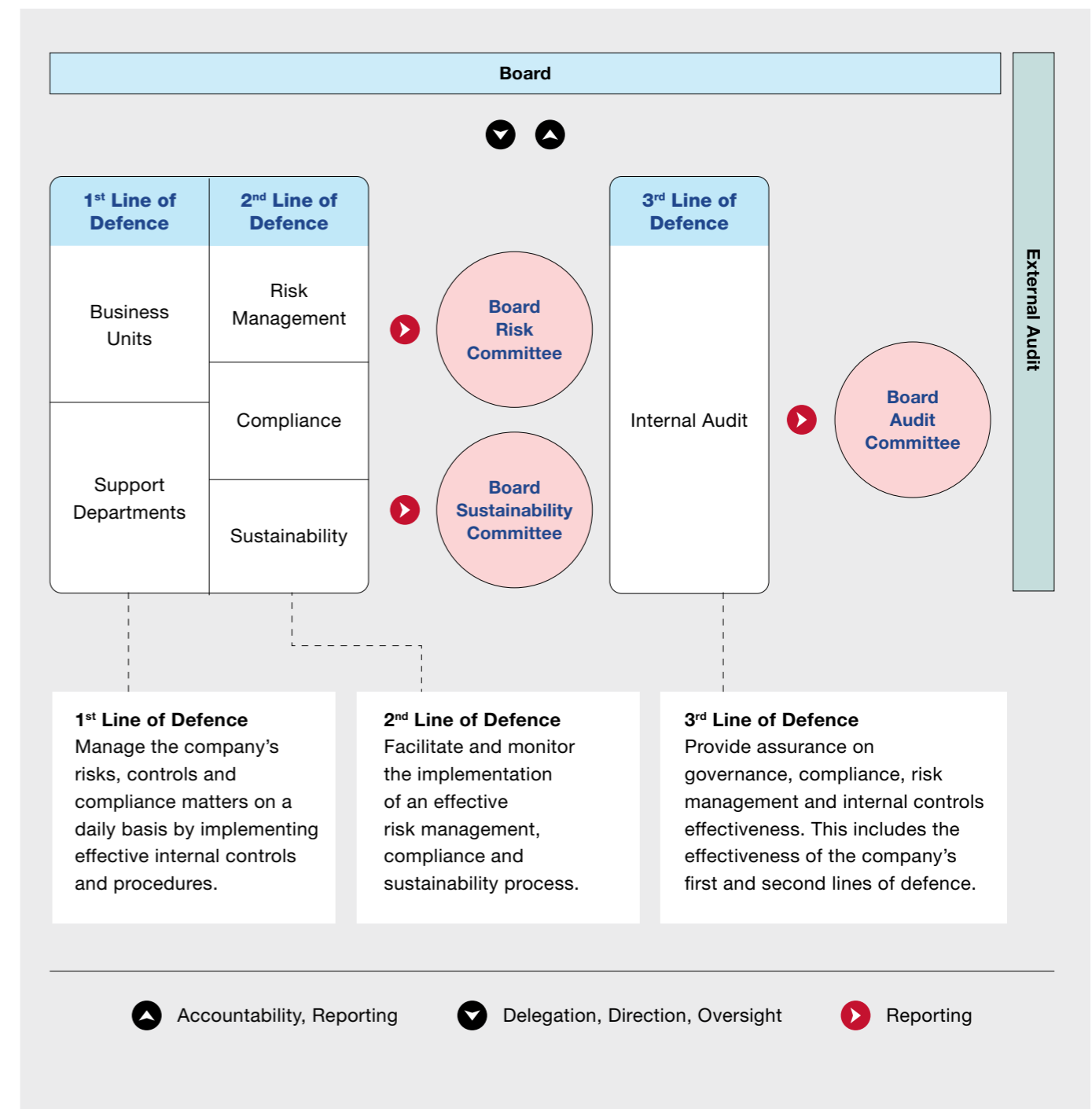
Updates on the progress and adequacy of the mitigation measures are assessed and reported on a quarterly basis. In addition, any identified emerging critical risk factors will be incorporated into the risk register and managed in accordance to the Group’s enterprise risk management methodology. Outcome of the RMC meetings will subsequently be escalated to the BRC for further deliberation.

# STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

The BRC will subsequently report the major risks to the Board of Directors to ensure the risk exposures are acceptable and appropriate level of risk mitigation are being implemented. This approach creates a robust enterprise risk management system that is self-sustaining and will continue to evolve in response to changing business environment.

In addition, the Group adopts the Three Lines of Defence model to ensure a structured governance practise. The importance of the Three Lines of Defence model is to ensure clear functional responsibilities and accountabilities for the management of risk, compliance and internal control. This is reflected in the Three Lines of Defence model which were adopted by the Group as depicted below:

## TOP GLOVE THREE LINES OF DEFENCE MODEL



## STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

### 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. The Management team are held accountable for the conduct and performance within their assigned business units and support functions. Internal control principles are strongly advocated and embedded into the various day-to-day operational policies and procedures of the business units and support functions concerned. These assigned business units and support functions will conduct its management meetings at regular interval to monitor its performance, action plan progress and gather further feedback for improvement purposes.

To fulfil its oversight responsibility, the Board Audit Committee (“BAC”) 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 of providing control assurance services to the Group.

The External Auditor provides further assurance to the BAC 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 BAC through management letters and discussion at the BAC Meeting.

### INTERNAL AUDIT FUNCTION

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

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

- 1 Reviewing the reliability and integrity of financial and operating information and the means used to identify, measure, classify and report such information;
- 2 Evaluating the system established to ensure compliance with policies, plans, procedures, laws, and regulations which could have significant impact on operations;
- 3 Examining the means of safeguarding assets and, as appropriate, verifying the existence of such assets;
- 4 Assessing the economy and efficiency with which resources are employed;
- 5 Appraising operations to ascertain whether results are consistent with established objectives and goals and whether the operations are being carried out as planned;
- 6 Reporting 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 a timely basis to BAC and management; and
- 7 Assisting in the investigation of significant suspected fraudulent activities and notify the BAC and top Management of the results.

The audit reports are presented and tabled at quarterly BAC meetings 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 BAC. If deemed necessary, management representative will be required to attend BAC 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 2021, a number of improvements to internal control gaps have been implemented by enhancing the controls towards digitalization such as automating certain manual processes using technologies, implementing electronic workflow process and integrating SAP systems to create good visibility and transparency. 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 Managing Director and its Executive Director, concludes that the Group’s risk management and internal control system are 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 27 October 2021.

## STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

### 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 Integrated Annual Report issued by the Malaysian Institute of Accountants for inclusion in the Integrated Annual Report of the Group for the FY2021, and reported to the Board that nothing has come to their attention that causes them to believe that this Statement included in the Integrated 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 risks 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.