

# STATEMENT ON RISK MANAGEMENT & INTERNAL CONTROL

This Statement on Risk Management & Internal Control is made pursuant to the Code and Paragraph 15.26 (b) of the Listing Requirements with regards to the Group's state of internal control.

The Board of Directors ("the Board") of KIM LOONG RESOURCES BERHAD ("KLR" or "the Company") is pleased to present below its Statement on Risk Management & Internal Control as a Group for the financial year under review, prepared in accordance with the Statement on Risk Management & Internal Control: Guidelines for Directors of Listed Companies' ("the Guidelines") issued by the Institute of Internal Auditors Malaysia and adopted by Bursa Securities and taking into consideration the recommendations underlying Principle 6 of the Code.

## BOARD RESPONSIBILITIES

The Board affirms its overall responsibilities for the Group's system of risk management and internal control, and for reviewing the adequacy and integrity of the Group's risk management and internal control system. The Board's responsibility in relation to the system of risk management & internal control is embedded in all aspects of the Group's activities and encompasses all subsidiaries of the Company.

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

However, as there is inherent limitation in any system of risk management and internal control, such system put into effect by Management can only manage but not to eliminate all risk that may impede the achievement of the Group's business objectives.

Therefore, the risk management and internal control system can only provide reasonable assurance and not absolute assurance against material misstatement or loss. The process to identify, evaluate and manage the significant risks is a concerted and continuing effort throughout the financial year under review.

The Board sets the policy on internal controls after conducting a proper assessment of operational and financial risks by considering the overall control environment of the organisation and an effective monitoring mechanism. The Managing Director and his management carried out the process of implementation and maintenance of the control systems. Except for insurable risks where insurance covers are purchased, other risks are reported on a general reporting basis and managed by the respective Committees within the Group.

## KEY FEATURE OF THE GROUP'S RISK MANAGEMENT AND INTERNAL CONTROL SYSTEM

The responsibility for reviewing the adequacy and integrity of the risk management and internal control system has been delegated by the Board to the Audit Committee. On a periodic basis, the Audit Committee assesses the adequacy and integrity of the risk management and internal control system through independent reviews conducted and reports it received from the Internal Auditors, the External Auditors and Management. Significant risk management and internal control matters were brought to the attention of the Audit Committee.

The Audit Committee then in turn reports such matters to the Board, if the Audit Committee deems such matters warrant the Board's attention.

Key elements of the Group's risk management and internal control system that have been established to facilitate the proper conduct of the Group's businesses are described below:

### i. Control Environment

- **Policies and Procedures**

Clearly defined policies and procedures are in place and are undergoing constant improvements to ensure that they continue to support the Group's business activities as the Group continues to grow.

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- **Operations Review and Monitoring**

Operations of the Group are constantly monitored with up-to-date reports being presented by the Management, which reviews the performance of the Group against budget and prior year performance on a quarterly basis. Variances are carefully analysed, and corrective actions are taken where necessary. Detailed reports on performance review with steps to be taken are presented to Executive Directors periodically.

General Manager and Executive Directors regularly visit the Group's estates. During the visits, Estate Managers report on the progress and performance, discuss and resolve the estates' operational and key management issues.

Executive Directors also monitor the performance of the business units through reports produced by external Planting Advisors. The roles of the Planting Advisors and Agronomist are to ensure that the technical aspects of all estates under the Group are based on current best practices in plantation management.

The milling operations are regularly visited by the Managing Director, Executive Directors and General Manager. During the visits, they discuss and resolve all operational and key management issues faced by the mill managers.

- **Organisation Structure and Authorisation Procedures**

The Group maintains a formal organisational structure with clear lines of reporting to the Board, Committees and Senior Management with defined roles and responsibilities, authority limits, review and approval procedures and proper segregation of duties which supports the maintenance of a strong control environment.

Specific responsibilities have been delegated to relevant Committees, all of which have formalised terms of reference.

These Committees have the authority to examine all matters within their scope and report to the Executive Chairman, Managing Director and Executive Directors with their recommendations.

- **Human Capital Policy**

Guidelines on employment, performance appraisal, training and retention of employees are in place, to ensure that the Group has a team of employees who are well-trained and equipped with all the necessary knowledge, skills and abilities to carry out their responsibility effectively.

Emphasis is being placed on enhancing the quality and ability of employees through training and development.

Employees' competencies are assessed annually through the annual appraisal system and subsequently, further development and training requirements are highlighted for Heads of Departments and business units for follow up.

- **Management Style**

The Board relies on the experience of the Executive Chairman, Managing Director, Executive Directors and the respective business units' management teams to run and manage the operations and businesses of the Group in an effective and efficient manner.

The Executive Chairman, Managing Director and management adopt a "hands on" approach in managing the businesses of the Group. This enables timely identification and resolution of any significant issues arising.

- **Quality Control**

Strong emphasis is placed on ensuring that the Group adheres to health, safety and environmental regulations as required by the various authorities.

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## • Other Key Elements of Internal Control

Other key elements of procedures established by the Board which provide effective internal control include:

- Centralised functions of finance, treasury administration, human resource, agronomic, marketing and bulk purchases to ensure that uniform policies and procedures are implemented throughout the Group.
- Regular site visits to the operations within the Group by the Executive Chairman, Managing Director and Executive Directors and Senior Management.
- The Finance Department monitors the activities and performance of the subsidiaries through the monthly management accounts and ensures control accounts are reconciled with the subsidiary's records.
- Adequate insurance and physical safeguarding of major assets are in place to ensure these assets are sufficiently covered against any mishap that may result in material losses to the Group.
- The documented policies and procedures form an integral part of the internal control system to safeguard the Group's assets against material losses and ensure complete and accurate financial information. The documents consist of memoranda, circulars, manuals and handbooks that are regularly revised and updated to meet operational needs.
- Proposals for major capital expenditures of the Group are reviewed and approved by the Executive Directors.
- Regular Board and management meetings to assess performance of business units.
- All recurrent related party transactions are dealt with in accordance with the Listing Requirements of Bursa Securities. The Audit Committee and the Board review the recurrent related party transactions at the respective meetings of the Audit Committee and the Board.
- Reporting mechanism whereby Executive Directors receive monthly performance and plantation statistic with explanation and justification.

## • Code of Business Conduct and other related Policies

In addition, the following Internal Control component have been embedded and defined in the CG Manual to assist the Board in maintaining sound internal control system:

- Code of Ethics and Conduct defines acceptable behaviour for staff in dealing with key stakeholders. The Code is made available to all staff through their respective Head of Department.
- Corporate Integrity Policy - Anti Fraud Policy have been developed to define consistent and clear process focussed on the prevention, detection and management of fraud and applies to any irregularity, or suspected irregularity, involving employees as well as shareholders, consultants, vendors, contractors, external parties doing business with employees with the Group.
- Whistle Blowing Policy has been formulated to encourage and provide a channel to employees to report in good faith and in confidence, without fear of reprisals, of concerns about possible improprieties. Allegations of improprieties which has been reported via the whistle blowing channel are appropriately followed up upon and the outcome(s) reported at the Audit Committee meetings.

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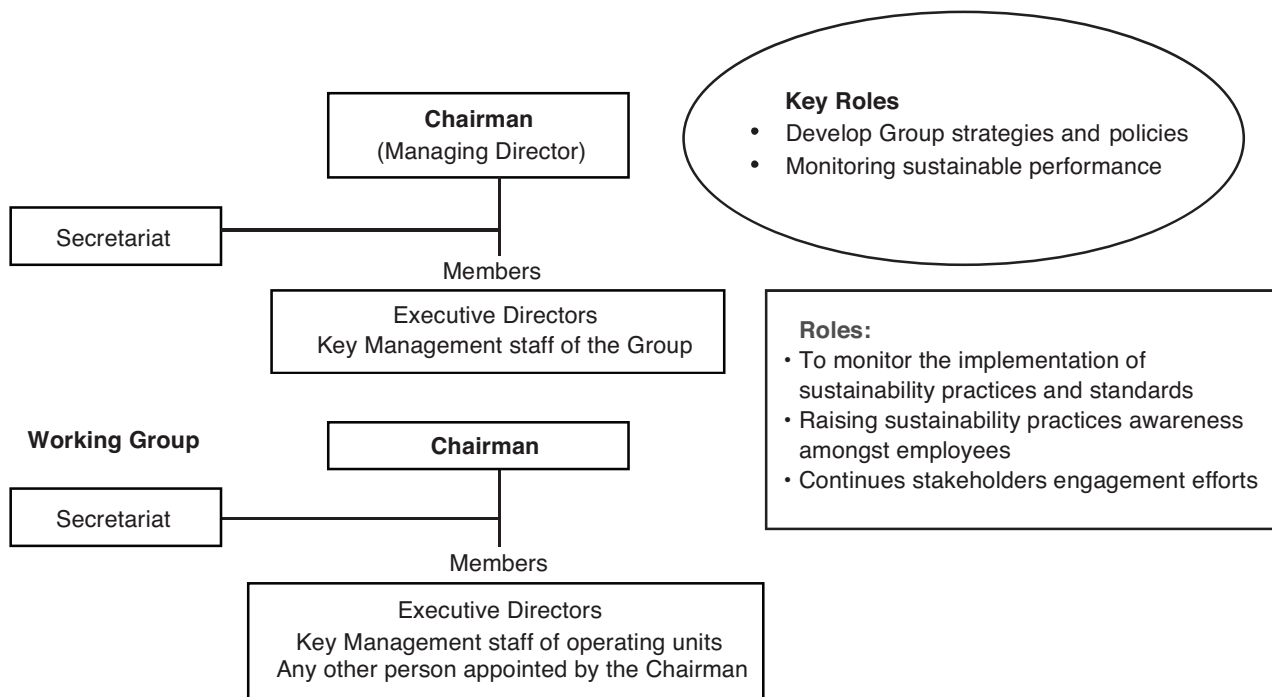
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## ii. Risk Management Framework

The Board recognises that risk management is an integral part of the Group's business operations and is important for the achievement of its business objectives. The Group has established a Risk Management and Sustainability Committee ("RMSC") that is chaired by the Managing Director and its members comprising the Executive Directors, Heads of Divisions & Departments ("HODS") and staff from key operations. They have also been trained to identify the risks relating to their areas, the likelihood of these risks occurring, the consequences if they do occur, and the actions being and/or to be taken to manage these risks to the desired level. The risk profiles and risk treatment measures determined from this process are documented in risk registers with each business or operations area having its respective risk register. The risk registers are eventually compiled to form the Group Risk Profile for reporting to the RMSC and the Audit Committee.

Ongoing risk management education and training is provided at management and staff level by members of RMSC.

### Risk Management and Sustainability Committee



Note: The Chairman of the Working Group can be a member of the Risk Management and Sustainability Committee or appointed by the Risk Management and Sustainability Committee

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Our key risks and actions taken are summarised below:

Risk Category	Description & Impact	Mitigation Measures
<b>Operational Risk:</b> Escalating operational costs	<p>Escalating operational costs due to external factors e.g. increasing labour cost, weak Ringgit, increase in inflation and interest rates and also due to increase in the size of the Group and commercial undertakings.</p>	<p>We apply close monitoring and adherence to the approved budget to keep our costs in check.</p> <p>The Group is constantly improving its productivity through efficient management of its labour force, introducing better tools to work with and mechanization in selected operational areas including consolidation and automation of the mills to be more labour efficient.</p>
<b>Operational Risk:</b> Inability to achieve optimum oil yield per hectare due to ageing palm tree profile affecting overall palm oil yield	<p>The factors that influence the yield of Fresh Fruit Bunches (FFB) include the age and maturity of oil palms. Their prime productive period is at year 10 through 20 after planting. Thus, it is advisable for plantation companies to undertake replanting approximately every 25 years to ensure continuous long-term efficient production and sustainable yields.</p> <p>However, newly planted oil palms do not yield FFB until they reach harvestable age, which is about two and half years after planting, and the yield of young trees are significantly lower than the yield of mature trees. Our replanting programme has a short to medium term impact on the FFB production which in turn may affect our revenue and margins.</p>	<p>We structured our replanting programme on a rolling basis to minimize the effect on FFB production in any given year. We have embarked on the programme since year 2009 and will continue until the age profile of our plantation is fully optimized.</p>
<b>Foreign Currency and Commodity Price Risks:</b> Fluctuation of local and international commodity prices affecting prices of FFB, CPO and other palm oil milling products	<p>Fluctuation in exchange rate between USD and Ringgit Malaysia could have adverse effect on palm oil prices.</p> <p>Change in import tariff on palm oil by major importing countries may affect palm oil prices which could impact the Group's revenue and profits. Globally the palm oil competes with other edible oils, such as soybean oil.</p> <p>Our profit may be impacted by the fluctuation of palm oil prices which may result in a lower profit. A prolonged low palm oil prices would have a material adverse effect on the Group's cash flows and profits.</p>	<p>The Management constantly monitor the movement in palm oil commodity prices and may take steps to mitigate unfavourable movement in commodity prices, where necessary, to reduce the impact on the Group's financial performance. To achieve this, the Group may use derivatives such as Futures and Swap contract to hedge against cash flow risks faced by the Group arising from its forecasted probable production.</p>

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Risk Category	Description & Impact	Mitigation Measures
<b>Environmental Risk:</b> Erratic weather conditions impacting operation	Unfavourable weather such as prolonged dry weather and excessive rainfalls may affect FFB production and evacuation.  Dry weather may also affect water supply to employees' quarters.	The Plantation General Manager will specifically look into and address the issue.  We have also provided sufficient budget for the maintenance of infrastructure within our estates. Our estates continuously explore new methods and innovation e.g., tube-well systems were introduced to mitigate drought conditions.
<b>Human Resource and Labour Shortage Risks:</b> High dependency on foreign labour	Due to difficulties in securing local labour, our plantation is highly dependent on foreign workers especially from Indonesia and Philippines for its operations. Additionally, policy changes, increased competition and intensified scrutiny of labour may impact our operations, which in turn leads to decrease in revenue and profit.	We have taken several initiatives to improve the relationship with our existing workers so that they can assist in recruitment. Relationship with the local authorities and recruiting agents has been emphasized to assist in the recruitment process.
<b>Organisation Capability Risk:</b> Ensuring Group has a talent pool with right competency and skillsets	Pool of talent with right skill-sets and competency is necessary to ensure continuous growth of the Group.	Apart from external trainings, in-house training programmes are developed for our employees to bridge the competency gap.
<b>Competition Risk:</b> Competition for FFB Supply	The palm oil industry is highly competitive. The Group faces competition for the supply of Fresh Fruit Bunches locally as a large proportion of FFB supply is from external suppliers.	The Group has progressively reviewed and strengthened our marketing strategy and approach.

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## iii. Internal Audit Function

The roles, responsibilities and activities of the Internal Audit function are described and detailed on pages 73 to 74 under the Report of the Audit Committee in this Annual Report. There were neither major weaknesses in the system identified during the year, nor have any of the reported weaknesses resulted in material losses or contingencies requiring disclosure in the Annual Report. Those areas of non-compliance with the procedures and policies and those which require improvements as highlighted by the Internal Auditors during the period are being addressed.

## iv. Information and Communication

Information critical to meeting Group's business objectives are communicated through established reporting lines across the Group. This is to ensure that matters that require the Board and Senior Management's attention are highlighted for review, deliberation and resolution on a timely basis.

## v. Review and Monitoring Process

The Group's management teams carry out monthly monitoring and review of the Group's operations and performance, including financial results and forecasts for all business operations within the Group.

In addition to the above, scheduled and ad-hoc meetings are held at operational and management levels to identify, discuss and resolve business and operational issues as and when necessary. The Board monitors the Group's performance by reviewing its quarterly results and operations and examines the announcement to Bursa Securities. These are usually reviewed by the Audit Committee before they are tabled to the Board for approval.

## CONFIDENTIAL REPORTING

The Group's whistleblowing policy enables staff, in confidence, to raise concerns about possible improprieties in financial and other matters and to do so without fear of reprisal. Details of the policy are set out in the Company's Code of Ethics. The Audit Committee receives reports on whistleblowing incidents and remains satisfied that the procedures in place are satisfactory to enable independent investigation and follow up action of all matters reported. No major issues have been reported in financial year 2019 (major issues being defined for this purpose as matters having a financial impact greater than RM10,000).

## ASSURANCE PROVIDED BY THE MANAGING DIRECTOR AND FINANCE DIRECTOR

In line with the Guidelines, the Managing Director and Finance Director have provided assurance to the Board that the Group's risk management and internal control systems have been operated adequately and effectively, in all material aspects, to meet the Group's business objectives during the financial year under review.

The Managing Director and Finance Director have in turn obtained relevant assurance from the business heads in the Group.

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## REVIEW OF STATEMENT BY EXTERNAL AUDITORS

Pursuant to Paragraph 15.23 of the Listing Requirements of Bursa Securities, the External Auditors have reviewed this Statement on Risk Management and Internal Control for inclusion in the Annual Report for the financial year ended 31 January 2019. Their review was performed in accordance with Recommended Practice Guide 5 (RPG 5) issued by the Malaysian Institute of Accountants.

The External Auditors have opined to the Board that nothing has come to their attention that causes them to believe that this Statement is inconsistent with their understanding of the process adopted by the Board in reviewing the adequacy and effectiveness of the risk management and internal control system of the Group.

RPG 5 does not require the External Auditors to and they did not consider whether this statement covers all risks and controls or to form an opinion on the effectiveness of the Group's risk management and internal control system.

## CONCLUSION

The Board is of the view that the system of internal control in place throughout the year under review is sound and sufficient to safeguard the shareholders' investment, the interests of customers, regulators, employees of the Group and to facilitate the expansion of its operations. Additionally, the Board regards the risks faced by the Group are within acceptable levels to the business environment within which the Group operates.

There were no material losses or fraud during the current financial year as a result of internal control failures and the Board and Management are continuously taking measures to improve and strengthen the internal control framework and environment of the Group.

This Statement is made in accordance with a resolution of the Board of Directors dated 15 May 2019.