

STATEMENT ON RISK MANAGEMENT & INTERNAL CONTROL

This Statement on Risk Management & Internal Control is made pursuant to the Malaysian Code on Corporate Governance 2021 ("the Code") and Paragraph 15.26 (b) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad ("MMLR") with regards to the state of internal control of KIM LOONG RESOURCES BERHAD ("KLR" or "the Company") and its subsidiary companies (the company and its subsidiary companies shall collectively be herein referred to as "the Group").

The Board of Directors ("the Board") is pleased to present below the Group's 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 Issuers' ("the Guidelines") issued by the Institute of Internal Auditors Malaysia and adopted by Bursa Securities and taking into consideration the recommendations underlying Principle B 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 risks 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 its monitoring mechanism. Whilst, the Managing Director and his management carried 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.

MANAGEMENT'S RESPONSIBILITY

Management is accountable to the Board and is responsible for effective implementation of risk management and control mechanisms, including:

- providing executive leadership in the management of risk within their work responsibilities
- identifying and evaluating risks faced by the Group
- formulating and implementing internal control and risk management actions and mechanisms
- implementing remedial actions in response to significant risks, and to address compliance and control issues
- the overall achievement of business objectives and strategies

Management is committed to operating a sound system of internal control and the internal control system will continue to be reviewed, updated and improved upon in line with changes in the operating environment. Key to this is to identify significant threats and opportunities, evaluate the risk profile and drive mitigation strategies on a regular basis. All heads of departments, managers and senior executives are required to assume responsibility for risk management within their areas of responsibility and ensure that risk management is embedded in day-to-day business and decision-making processes.

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 on reports it received from the Internal Auditors, the External Auditors and Management. Significant risk management and internal control matters (if any) will be brought to the attention of the Audit Committee by the Internal Auditors, the External Auditors and Management.

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

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KEY FEATURE OF THE GROUP'S RISK MANAGEMENT AND INTERNAL CONTROL SYSTEM (Cont'd)

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 periodically reviewed to support the Group's business activities as the Group continues to grow.

- Operations Review and Monitoring

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

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

The Executive Directors also monitor the performance of the business units through reports produced by external consultant (namely Planting Advisors and Agronomists). The roles of the external consultants 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 General Manager. During the visits, key operational and management issues faced by the mill managers are discussed and addressed.

- Organisational 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 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 build and maintain a team of employees who are equipped with the necessary knowledge, skills and abilities to carry out their responsibility effectively.

Emphasis is being placed on enhancing the skills and competency of employees through training and development.

Employees' competencies are assessed through the annual appraisal system; where skill development and training requirements are highlighted to Heads of Departments and business units for approval and implementation.

- Management Style

The Board entrusted the responsibility of the day-to-day management of the Group's operation to the Executive Chairman, Managing Director, Executive Directors and key Management team; all of whom are highly experienced individuals with proven performance record.

The Executive Chairman, Managing Directors and management adopt a "hands on" approach in managing the business of the Group and steering the Group towards the strategic direction set by the Board. This enables timely and effective identification and resolution of any significant issues and serve as an effective internal control features.

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KEY FEATURE OF THE GROUP'S RISK MANAGEMENT AND INTERNAL CONTROL SYSTEM (Cont'd)

i. Control Environment (Cont'd)

- Quality Control

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

- Other Key Elements of Internal Control

Other key elements of internal control established by the Board include amongst others:

- 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 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 subsidiaries' records.
- Adequate insurance and physical safeguarding of major assets are in place to protect the Group from potential financial losses in the event of any unforeseen circumstances (such as fire damage, theft etc.)
- Proposals for major capital expenditure 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 MMLR. 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 milling and plantation performance summaries and statistic with commentaries.
- Code of Business Conduct and other related Policies
 - Code of Ethics and Conduct: The code defines acceptable behaviour for staff in dealing with key stakeholders and is made available to all staff.
 - Corporate Integrity Policy – Anti Fraud Policy: The Policy sets out the framework for the prevention detection and management of any fraudulent act within the Group (including any irregularity, or suspected irregularity involving employees, shareholders, consultants, vendors, contractors, external parties).
 - Whistle Blowing Policy: The Policy is formulated to provide a channel for employees to report in good faith and in confidence, without fear of reprisals, any concerns about possible improprieties within the Group. Allegations of improprieties reported via the whistle blowing channel are appropriately followed up upon and the outcome(s) reported to the Audit Committee.

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. Members of RMSC are tasked with the role identify risks relating to their areas, likelihood of these risks occurring, consequences if they do occur, and 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 (as the case maybe).

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

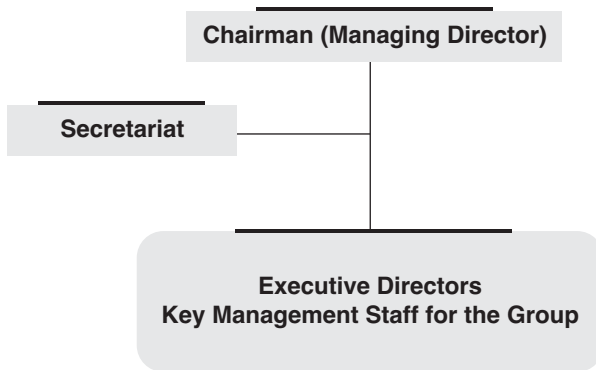
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KEY FEATURE OF THE GROUP'S RISK MANAGEMENT AND INTERNAL CONTROL SYSTEM (Cont'd)

ii. Risk Management Framework (Cont'd)

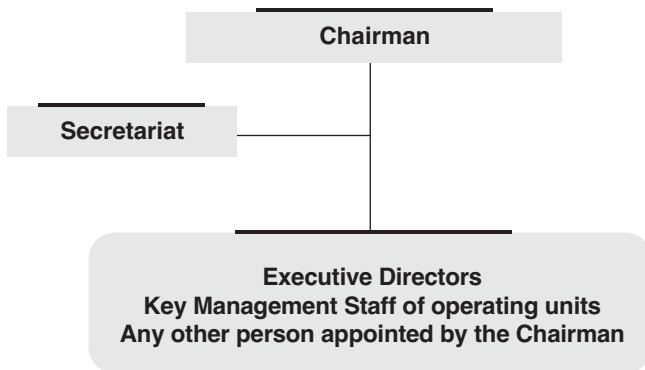
Risk Management & Sustainability Committee



Key Roles of the RMSC in the area of risk management:

- Develop Group strategies and policies
- Monitoring sustainable performance

Risk Management & Sustainability Committee - Working Group



Key roles of working Group in the area of risk management:

- To monitor the implementation of sustainability practices and standards
- Raising sustainability practices awareness amongst employees
- Continues stakeholders engagement efforts

Note:

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

Significant risks identified for the financial year ended 31 January 2024

Anti-Bribery and Anti-Corruption Policy

The Malaysian Anti-Corruption Commission (Amendment) Bill 2018 was gazetted on 4 May 2018 as the MACC Amendment Act 2018. The enforcement of provisions on corporate liability became effective on 1 June 2020.

The provisions criminalise a commercial organisation if a person associated with it corruptly gives, agrees to give, promises or offers to any person any gratification with intent to obtain or retain business, or an advantage in the conduct of business, for the organisation. The Group has formulated its Anti-Bribery and Anti-Corruption Policies to manage potential bribery and corruption risk within the Group.

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KEY FEATURE OF THE GROUP'S RISK MANAGEMENT AND INTERNAL CONTROL SYSTEM (Cont'd)

ii. Risk Management Framework (Cont'd)

Other key risks and actions taken are summarised below:

| Risk Category | Description & Impact | Mitigation Measures |
|---|---|---|
| <p>Governance and Compliance Risk: Evolving regulatory landscape on sustainability</p> | <p>At the national and global levels, regulators continue to push forward with enforcing new and/or revised rules and guidance to deliver their respective sustainability agenda. Whilst, the Group recognises the importance of the issue and is taking the necessary actions to set its sustainability priorities and execute its commitments; it is also facing a heightened risk of compliance especially in terms of its legal, financial and criminal exposure if any of the regulations are not followed.</p> | <p>In response to the evolving regulatory landscape on sustainability, the Group has:</p> <ul style="list-style-type: none"> • Established and mandated its RMSC to oversee and manage the Group's sustainability goals, priorities, enforcement and delivery; • Formalised the Human Capital Policies, which enforces a "No Child Labour" practice, formation of the Gender Committee and Joint Consultative Committee; • Formalised proper channels for its employees and business associates to report on any violation of policies and procedures of the Group; • Promote awareness amongst its employees and business associates of the Group's Anti-Bribery and Anti-Corruption Policy and other sustainability-related policies. <p>On the operational front, the Group is continuously exploring and assessing investment in new plant and machineries to reduce the impact of milling operations on the environment.</p> |
| <p>Operational Risk: Fluctuation of operational costs, with upside risk</p> | <p>The Group's operational cost is primarily made up of its plantation and milling operation costs. The major items include, amongst others, cost of labour, fertilizer, transportation, plant maintenance, etc.; of which prices are highly dependent on external factors. During the financial year, the Group has experienced an overall escalation in cost, brought about by labour shortages, weakening Ringgit, and overall inflationary pressures on its input materials. Moving forward, the risk of cost escalation remains upward tilted, given the unrelenting geopolitical tensions in the Middle East which may lead to further trade restrictions and supply disruptions.</p> | <p>The Group manages cost with the practice of budgeting and monitoring of divergence of actual cost vs budget over time. Any major divergence of cost will be highlighted and mitigated, where possible.</p> <p>In addition, measures to improve the plantation and milling divisions' productivity are part of our cost management focus. These measures, include the introduction of mechanization in selected operational areas, automation of certain processes in the mills, utilization of better tools and better management of labour.</p> |

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| Risk Category | Description & Impact | Mitigation Measures |
|--|---|---|
| Operational Risk: Inability to achieve optimum oil yield per hectare due to ageing palm tree profile | <p>The factors that influence the yield of Fresh Fruit Bunches ("FFB") include the age and maturity of oil palm trees. Their prime productive period is at year 10 through 20 after planting. Thus, it is advisable for plantation companies to consider replanting after the palm age attained above 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 that of mature trees. Generally, our replanting programme has a short to medium term impact on the Group's FFB production which in turn may affect our revenue and margins.</p> | <p>We structured our replanting programme on a rolling basis to minimise the effect on FFB production in any given year.</p> <p>Our replanting programme is carried out after taking into consideration the existing age profile of our palms and the impact on future FFB production, as well as the availability of seed stockpile. Implementation of the programme will be monitored and re-calibrated, if necessary, until the overall age profile of our plantation is fully optimized.</p> |
| Foreign Currency and Commodity Price Risks: Fluctuation of local and international commodity prices affecting prices of FFB, CPO and other palm oil milling products | <p>The Group's results are highly dependent on the prices of FFB and CPO. These commodity prices are in turn driven by various regional and global factors such as the volatility of foreign exchange rates, changing regulatory landscape in major palm oil exporting and importing countries, prices of other competing edible oils (such as soybean) and climate change.</p> | <p>The Management constantly monitors the movement in palm oil commodity prices and may take steps to mitigate unfavourable price movement 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.</p> |
| Environmental Risk: Extreme weather conditions impacting operation | <p>Extreme climate occurrences such as prolonged rising temperature, droughts and heavy rainfall causing floods are some of the many climate-induced challenges that may directly impact our estates' productivity, leading to reduced yields and/or escalation in our production cost.</p> | <p>As extreme climate occurrences are becoming a norm, we have adopted an adaptive approach to deal with the challenges that these climate changes pose. We have installed appropriate irrigation mechanism within our estate to regulate water supply and have progressively constructed new ponds and deepened existing ponds to meet the requirements of our FFB processing mills. Sufficient financial provision will be set aside for the maintenance of these infrastructure. Our estates are also exploring new method to mitigate the impact of drought with tube-well systems.</p> |
| Human Resource and Labour Shortage Risks: High dependency on foreign labour | <p>Due to difficulties in securing local labour, our plantation is highly dependent on foreign workers especially from Indonesia and Philippines for its operations.</p> <p>The Indonesian government's freeze on entry of Indonesian workers to Malaysia, implemented in 2021, has impacted our planned in-take of labour from the country and despite certain relaxation of the freeze, our estate labour requirements are yet to be optimally met.</p> <p>Additionally, policy changes, increased competition for labour and intensified scrutiny of labour laws are amongst the other labour related challenges that we face.</p> | <p>To alleviate the labour shortage, we are:</p> <ul style="list-style-type: none"> • Offering incentives to retain existing workers and to attract new workers. • Enhancing housing and other facilities and benefits. • Improving communications with the local authorities and recruiting agents to expedite recruitment process. • Accelerating mechanisation, particularly for activities like collecting fresh fruit bunches (FFB). |

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| Risk Category | Description & Impact | Mitigation Measures |
|---|--|---|
| Health & Safety Risks: Hazard | Occurrence of any injuries or fatalities at work place may adversely impact employees' morale, health and productivity. In addition, such occurrences may also result in fines and stricter scrutiny from the relevant occupational health and safety authorities on the Group's operations. | The Group subscribes to a safety-first approach in all work-related activities in our estates and mills, particularly for activities involving the preparation & transportation of chemicals, spraying & manuring, and machinery operation & repairs. We conduct regular reviews / audit of processes to ensure that safe working procedures are practiced and personal protective equipment are provided and used. We also provide safety awareness training for our workers and supply chain partners to inculcate a safety-first approach and share any health & safety learnings from sites. Emphasis is also placed on health and safety features of our workers' living quarters. Measures will be taken to enhance the workers' living environment and promote the practice of healthy and safe habits. |
| Organisation Capability Risk: Challenges in attracting, obtaining and retaining talent | Having a pool of talent with the right skill-sets and competency is necessary to ensure continuous growth of the Group. However, the oil palm industry has been facing challenges in attracting, obtaining and retaining talent due to the negative connotation of it offering "3D" jobs (dirty, dangerous and difficult). | The Group is continuously investing in people development by facilitating various capabilities, technical and leadership development programmes, to equip employees with critical skills and attributes. The Group is also exploring opportunities to mechanise select work processes and upskill its workers to provide a better job outlook. |
| Competition Risk: Competition for FFB supply | From time to time the Group faces challenges in sourcing external FFB supplies in the vicinity of its mills. Failure to source sufficient FFB may result in the mills not operating at optimum level. | In order to counter the risk, we put in place procedures to: <ul style="list-style-type: none"> • monitor suppliers and competitors' strategies to better prepare for any shift in FFB supply and demand trends; • build rapport with suppliers to keep abreast of any potential change in supply chain to stay ahead of competitors; • continuously assess and re-align strategies to remain competitive. |

iii. Internal Audit Function

The roles, responsibilities and activities of the Internal Audit function are described and detailed on pages 96 to 97 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 the 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 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.

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CONFIDENTIAL REPORTING

The Group's Whistle-blowing policy enables staff to raise concerns about possible improprieties in financial and other matters and to do so, in confidence, without fear of reprisal. Details of the policy are set out on the Company's website at www.kimloong.com.my. 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 2024 (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.

REVIEW OF STATEMENT BY EXTERNAL AUDITORS

Pursuant to Paragraph 15.23 of the MMLR, the External Auditors have reviewed this Statement on Risk Management & Internal Control for inclusion in the Annual Report for the financial year ended 31 January 2024.

The External Auditors have reviewed 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 Governance & Financial Report issued by the Malaysian Institute of Accountants (MIA) for inclusion in the Governance & Financial Report of the Group for the year ended 31 January 2024, and reported to the Board that nothing has come to their attention that causes them to believe that the statement intended to be included in the Report of the Group, in all material aspects:

- a) has not been prepared in accordance with the disclosures required by paragraphs 41 and 42 of the Statement on Risk Management & Internal Control: Guidelines for Directors of Listed Issuers, or
- b) is factually inaccurate.

AAPG 3 does not require the external auditors to consider whether the Directors' Statement on Risk Management & 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 Board of Directors and Management thereon. The auditors are also not required to consider whether the processes described to deal with material internal control aspects of any significant problems disclosed in this Report will, in fact, remedy the problems.

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 16 May 2024.