

# STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

## BOARD'S RESPONSIBILITIES

The Board of Directors ("The Board") acknowledges their responsibility in maintaining a sound system of internal control covering financial and operational controls, compliance and risk management to safeguard shareholders' investments and the Group's assets. The tone and culture towards managing key risks are carefully nurtured and directed by the Board and embedded into the Group's processes and structure. The Risk Management Committee ensures the implementation and compliance of a robust risk management process and relevant internal controls system.

There is an on-going review process by the Board to ensure the adequacy and integrity of the risk management and internal control system in accordance with the Statement on Risk Management and Internal Control: Guidelines for Directors of Listed Issuers. However, the Board recognises the review of the Group's system of risk management and internal controls is a concerted and continuous process, designed to manage rather than eliminate the risk of failure to achieve business objectives. As such, internal controls can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board has received assurance from the Executive Committee and Chief Financial Officer that the Group's risk management and internal control system is adequate and operates effectively, in all material aspects providing reasonable assurance that risks are managed within tolerable ranges. The Executive Committee consists of the Executive Chairman, Group Managing Director, Executive Directors of the Company and Heads of Business Units.

## RISK MANAGEMENT

The Board has put in place an Enterprise Risk Management ("ERM") framework, in accordance with the principles set out in the Malaysian Code on Corporate Governance 2021, to ensure that there is an on-going process of identifying, evaluating, and managing significant business risk exposure. The Group's ERM framework aims to facilitate the execution of strategic business plans to achieve the Group's vision of being a preferred global agro-based enterprise by maintaining and implementing relevant controls or translating the principal risks of the business into upside opportunities.

The Group's ERM framework is principally aligned with the internationally recognised COSO (Committee of Sponsoring Organisations) ERM Framework. Risk factors are incorporated into the risk register and individually rated as High, Significant, Moderate or Low risk. The rating process is guided by a matrix of 'possibility of likelihoods' and the associated 'consequences', of which both financial and non-financial parameters 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 acceptable tolerance.

Management is accountable to the Board for risk management and internal control and has implemented processes to identify, evaluate, monitor and report risks in a timely manner. Management promptly mitigates risk through the design and implementation of effective and relevant controls. For this, a Risk Management Committee ("RMC") and a Risk Management Unit ("RMU") have been established by the Group.



Diagram 1: Risk Reporting Structure at QL

## RISK MANAGEMENT COMMITTEE

The members of the Risk Management Committee ("RMC") comprise a majority of Independent Non-Executive Directors appointed by the Board of Directors. The RMC is responsible for amongst others the following:

- To create a high-level risk strategy policy aligned with the Company's strategic business objectives;
- To perform risk oversight and review risk profiles (Company and the Group) and organisational performance; and
- To provide guidance to the business units' risk appetite and capacity, and other criteria, which, when exceeded, trigger an obligation to report upward to the Board.

## RISK MANAGEMENT UNIT

Chaired by the Executive Chairman, the RMU undertakes the following responsibilities:

- To communicate board vision, strategy, policy, responsibilities, and reporting lines to all employees across the Group;
- To identify and communicate to the RMC the critical risks (present or potential) the Group faces, their changes, and the management action plans to mitigate the risks; and
- To perform risk oversight and review risk profiles (Company and the Group) and organisational performance.

The Group has a Risk Management Function ("RM"), led by the Head, Group Risk Management. The RM facilitates and supervises the implementation of the ERM framework and processes by the respective business units. The RM reports functionally to the Executive Chairman with periodic reporting to RMC and RMU.

Key aspects of the risk management process are as follows:

- Coordinates the periodic review of risk registers which are carried out to assess changes in the Environmental, Social, and Governance (ESG) aspects that could significantly impact the Group and its key risks.
- Heads of Business Units to update their profiles' worksheet on a quarterly basis.
- The risk profiles' worksheet, control procedures and status of action plans are reviewed for efficacy on a periodic basis.
- On a quarterly basis, a risk management report summarising the high and significant risks and status of action plans is presented to the RMC and RMU for review, deliberation and recommendation for endorsement by the Board of Directors.

Enterprise Risk Management refresher trainings were conducted during risk assessment process as part of the ERM awareness enhancement activity. The RMC and RMU will continuously deliberate the following to further strengthen the existing risk management controls within the Group:

- Key risks highlighted in the Risk Management Report will be used in developing internal audit plans.
- Quarterly Risk Management Summary Report to RMC.
- ERM brainstorming and risk assessment in FY2022.
- Anti-Bribery Governance Risk Assessment Update.
- The documented standard operating policies and procedures to ensure compliance with internal controls, laws and regulations, will be subjected to regular reviews and improvement.
- Enhance Crisis Management to handle disruptive incidents and effectively ensure a structural recovery that safeguards the interests of its stakeholders, as well as to protect the credibility and reputation of QL.
- The Group's Code of Ethics and Conduct communicates the Group's commitment to practice business ethically towards its stakeholders, including its employees and major suppliers.

## STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL (CONT'D)

### PRINCIPAL RISKS

During the financial year under review, the Group's activities were exposed to the following principal risks:

Key Risks	Description	Key Mitigation Measures
<b>COVID-19 Risk</b>	Falling under the category of "Essential Services or Goods", QL's businesses are allowed by the Malaysian government to continue its operations. The spread of COVID-19 may cause disruptions in the business operations.	<ul style="list-style-type: none"> <li>Perform self-administered COVID-19 test.</li> <li>Workplace management inclusive of work arrangements for employees, management of common facilities and contractor/supplier/visitor management.</li> <li>Frequent communication updates and enforcement of COVID-19: Safety and Health Guidelines in the Workplace and New Normal.</li> <li>Facilitate and assist employees for COVID-19 vaccination jabs.</li> <li>Set up internal quarantine centre to isolate positive cases.</li> </ul> <p>Management continues to monitor the situation closely and do whatever necessary to protect employees and customers whilst ensuring business continuity.</p>
<b>Operational Risk</b>	The Group's policy is to assume operational risks that are manageable within its core business competencies. The operational risk management ranges from disease outbreak, power failure, fire breakout, shortage of fish, food contamination, halal compliance, shortage of foreign workers and environmental risk.	<ul style="list-style-type: none"> <li>Day-to-day operational risks are mainly decentralised at the respective business unit level and guided by standard operating procedures (SOPs).</li> </ul>
<b>Financial Risk</b>	The Group is exposed to various financial risks relating to foreign currency exchanges and commodity trading & pricing related risk. Commodity trading & pricing related risk arises from volatility of commodity prices. 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.	<ul style="list-style-type: none"> <li>Constant monitoring and guided by hedging policies.</li> <li>The futures market is utilised as a hedging tool to manage the Group's exposure to price fluctuations.</li> </ul>
<b>Information Technology Risk</b>	This includes potential risks such as network security risk, data protection risk and cybersecurity risk.	<ul style="list-style-type: none"> <li>Continuously upgrading and enhancing the Group's security system.</li> <li>I.T. policy covering the protection of both business and personal information, as well as cybersecurity and I.T. disaster recovery.</li> <li>Risk sharing by subscribing to Cybersecurity Insurance coverage for the Group.</li> </ul>

### INTERNAL AUDIT

Internal audit function was carried out by an independent professional consulting firm as an oversight function on all internal controls processes approved by the Board and any necessary improvements relevant to the business environment changes. Scheduled internal audits are carried out based on audit plan approved by the Audit Committee. The internal audit reports, summarising the observations of control weaknesses, recommendations for improvement and Management responses were presented to the Audit Committee on a quarterly basis. These findings were deliberated together with Management at the Audit Committee Meetings. The Audit Committee assessed the overall adequacy and effectiveness of the system of internal controls of the Group and reports to the Board of Directors, in particular, the matters relating to significant risks and the necessary recommendations for changes.

For the financial year under review, the internal audit's scope covered the following based on the approved audit plan:

- Cost control management, which involved assessing the adequacy of controls over procurement and inventory management.
- Operational and compliance control management, which involved assessing the adequacy of controls over halal compliance, process & controls review and human resource management.

### INTERNAL CONTROL PROCESS

The key elements of the Group's internal control processes are summarised as follows:

- The Board, Audit Committee, RMC and RMU meet on a quarterly basis to discuss strategic, operational, risk and control matters raised by the Management, Internal Auditor and External Auditor.

- The Board has delegated its responsibility to several committees and to the Management of the Company to implement and monitor designated tasks.
- The authority limits delineate authorisation limits for various levels of management and matters reserved for collective decision by the Board to ensure proper identification of accountabilities and segregation of duties.
- SOPs are revised to meet the operational requirement, the business and statutory reporting needs when necessary.
- Performance reports are provided to the Executive Committee and the Board for review and deliberation.
- QL Group has adopted and implemented the Anti-Bribery Policy ("ABP") which reflects the Group's stand of zero tolerance against all forms of bribery and corruption, and its commitment to lawful and ethical conduct at all times. QL's ABP includes the prohibition of facilitation payments, zero-tolerance of any involvement in bribery, and clear guidelines on gifts and entertainment, and expenses involving third-party representatives. QL's ABP published on its website at <http://ql.com.my/corporate-governance.html>.
- A whistle-blower policy is in place and anyone who has a genuine concern on detrimental actions or improper conduct may raise it using the confidential channels laid out in the policy which is available on QL's website.
- A set of Code of Business Ethics and Conduct setting out expected ethical standards and code of conduct has been established, which is binding on all employees in QL Group.
- A Sustainability Framework provides the roadmap to enhance QL Group's responsibility and duty to conduct business ethically, operate in a socially and environmentally responsible manner and adhere to sustainable practices.
- Heads of Business Units present their strategies, annual budgets and capital expenditure proposals to the Executive Committee and the Board for deliberation and approval.
- The review of strategy and annual budget is undertaken by Management on half-yearly basis.

### CONCLUSION

The Board is of the view that the risk management and internal control systems that are in place for the year under review and up to the date of approval of this statement is adequate and effective to safeguard shareholders' investment and the Group's assets.

There have been no significant breakdowns or weaknesses in the system of internal control of the Group for the financial year under review. The Group continues to take the necessary measures to ensure that the system of internal control is in place and functioning effectively.

The Group's system of internal control applies to QL Resources Berhad and its subsidiaries. Associated companies have been excluded because the Group does not have full management and control over them. However, the Group's interest is served through representations on the boards of the respective Associated companies.

This Statement on Risk Management and Internal Control was approved by the Board on 12 July 2022.