

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

INTRODUCTION

This statement is in line with the Main Market Listing Requirements of Bursa Malaysia Securities Berhad on the Group's compliance with the Principles and Best Practices relating to internal control as stipulated in the Malaysian Code on Corporate Governance 2012.

ROLES AND RESPONSIBILITIES

Board of Directors

The Board of Directors ("the Board") affirms its overall responsibility for the Group's system of internal control, including the assurance of its adequacy and integrity, and its alignment with business objectives. However, it should be noted that control systems are designed to manage rather than to totally eliminate associated risks; and as such, can only provide reasonable but not absolute assurance against material loss or failure.

The Board has established a process for identifying, evaluating, monitoring and managing the significant risks faced by the Group in its achievement of objectives and strategies. This process has been in place for the year under review and up to the date of approval of this statement.

Audit and Risk Management Committee

Board committees such as the Audit and Risk Management Committee and Nominating and Remuneration Committee are established by the Board, and they are governed by clearly defined terms of reference and authority for areas within their scope. The Audit and Risk Management Committee ("ARMC") maintains risk and audit oversight within the Group.

Corporate Risk Management Department

The Group has established the Corporate Risk Management ("CRM") Department to assist the Board and ARMC in discharging their risk management responsibilities. Amongst others the CRM is responsible for assisting in development of risk management framework, policies, processes and procedures; maintaining the risk register for the Group; monitoring operating unit's compliance with the Group's policies and procedures; monitoring and reporting of the key risks as identified by the Management and facilitate the bi-annual risk review.

Group Internal Audit Department

The Group Internal Audit Department ("GIAD") reports directly to the ARMC. The activities of the GIAD are guided by Internal Audit Charter and Annual Audit Plan that are approved by the ARMC. The GIAD monitors compliance with the Group's policies and procedures and applicable laws and regulations, and provides independent and objective assurance on the adequacy and effectiveness of risk management and internal control system by conducting regular audits and continuous assessment. Significant audit findings and recommendations for improvement are tabled quarterly to top management and the ARMC, with periodic follow-up reviews of the implementation of corrective action plans.

RISK MANAGEMENT FRAMEWORK

The Group adopts an Enterprise Risk Management ("ERM") framework which was formalised in 2002 and is consistent with the Committee of Sponsoring Organisations of the Treadway Commission's ("COSO") ERM framework, the Statement on Risk Management and Internal Control – Guidelines for Directors of Listed Issuers, and Bursa Malaysia's Corporate Governance Guide and also in line with ISO 31000, Risk Management – Principles and Guidelines (which is a standard relating to risk management codified by the International Organisation for Standardisation. ISO 31000 provides a standard on the implementation of risk management).

The Group's ERM framework essentially links the Group's objectives and goals (that are aligned to its Vision) to principal risks; and the principal risks to controls and opportunities that are translated to actions and programmes. The framework also outlines the Group's approach to its risk management policies:

i) Embrace risks that offer opportunities for superior returns

By linking risks to capital, the Group establishes risk-adjusted-return thresholds and targets that commensurate with varying risk levels assumed by its businesses. Superior risk management and other corporate governance practices are also promoted as contributing factors to lowering long-term cost of funds and boosting economic returns through an optimal balance between control costs and benefits.

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL (Cont'd)

ii) Risk Management as a collective responsibility

By engaging every level of the organisation as risk owners of their immediate sphere of risks (as shown in the illustration), the Group aims to approach risk management holistically.

This is managed through an oversight structure involving the Board, ARMC, Internal Audit, Executive Management and business units' Risk Management Committees.

iii) Risk forbearance shall not exceed capabilities and capacity to manage

Any business risk to be assumed shall be within the Group's core competencies to manage. Hence, the continuous effort in building risk management capabilities and capacity are key components of the Group's ERM effort. The Group's overall risk appetite is based on assessments of the Group's risk management capabilities and capacity.

iv) To apply as both a control and strategic tool

As a control tool, the Group ensures that the intensity and types of controls commensurate with assessed risk rankings. The Group also applies risk management as a strategic tool in scoping opportunities, investment and resource allocation, strategy formulation and performance measurement.

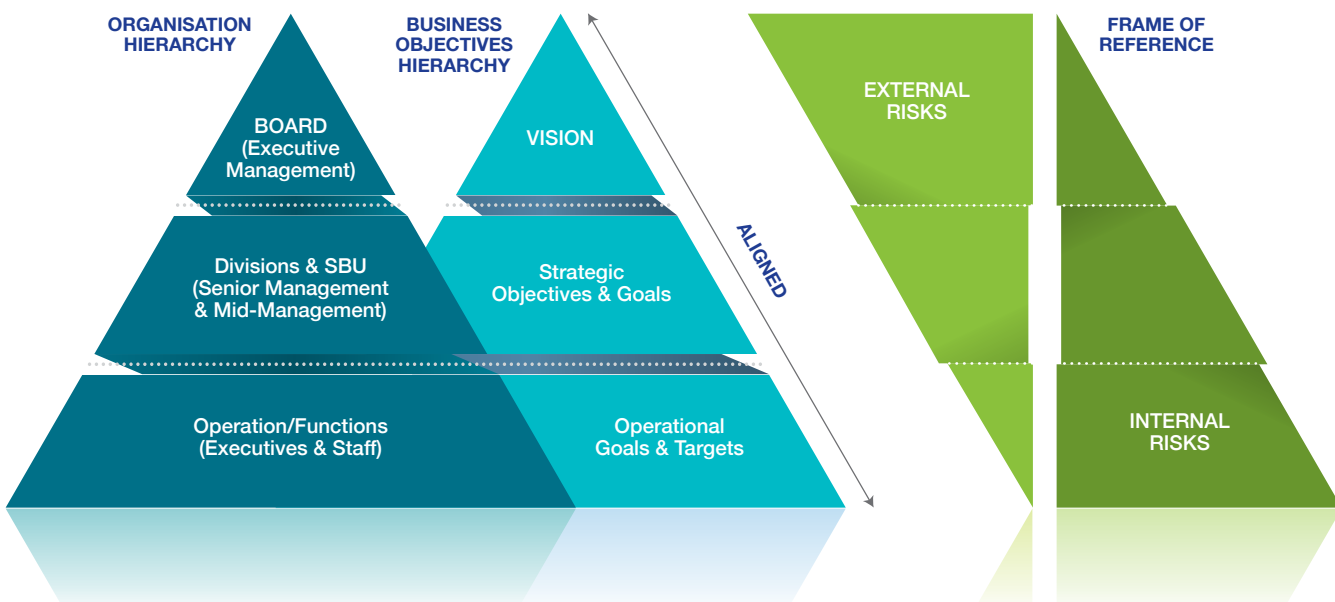
The Board conducts periodic reviews on the adequacy and integrity of the Group's ERM framework and policies, particularly in relation to the mechanisms for principal risks identification, assessment, response and control, communication and monitoring.

The Group's activities are exposed to a variety of risks, including operating, financial and compliance risks. The Group's overall risk management objective is to ensure that the Group creates value for its shareholders whilst minimising potential adverse effects on its performance and positions. The Group operates within an established risk management framework and clearly defined policies and guidelines that are approved by the Board.

Under the Group's ERM framework, the Group has relevant policies and guidelines on risk reporting and disclosure which cover the following principal risks:

i) Operating Risk

- The Group's policy is to assume operating risks that are within its core businesses and competencies to manage. Operating risk management ranges from managing strategic operating risks to managing diverse day-to-day operational risks.



- The management of the Group's day-to-day operational risks includes those relating to health and safety, quality, production, marketing and distribution, supply chain, sustainability and compliance with laws and regulations and various certifications is mainly decentralised at the business unit level and guided by approved standard operating procedures. Operational risks that cut across the organisation includes those relating to integrated systems, transfer pricing, group sustainability and reputation are coordinated centrally.

ii) Financial Risk

- The Group is exposed to various financial risks relating to credit, liquidity, interest rates, foreign currency exchange rates, and commodity prices. The Group's risk management objectives and policies coupled with the required quantitative and qualitative disclosures relating to its financial risks are set out in Note 41 to the financial statements on pages 215 to 247.

iii) Compliance Risk

- The Group operates in diverse geographical locations and as such is exposed to compliance risks of the laws and regulations in the various countries the Group operates, and compliance with the various certifications including Roundtable on Sustainable Palm Oil ("RSPO") and International Sustainability and Carbon Certification ("ISCC") certifications.

RISK MANAGEMENT AND INTERNAL CONTROL SYSTEMS

The Group's Core Values

The Group's corporate culture is embedded in its core values of integrity, commitment, loyalty, excellence in execution, speed or timeliness, innovativeness and cost efficiency – to achieve the Group's vision and support the business objectives and goals.

Code of Business Conduct and Ethics

The Group communicates the Code of Business Conduct and Ethics to its employees upon their employment. The Code of Business Conduct and Ethics reinforces the Group's core value on integrity by providing guidance on moral and ethical behaviour that is expected from all employees in following the laws, policies, standards and procedures.

Whistleblowing Policy

A whistleblowing policy is established to provide appropriate communication and feedback channels which facilitate whistleblowing in a transparent and confidential manner to enable employees and stakeholders to raise genuine concerns about possible improprieties, improper conduct or other malpractices within the Group in an appropriate way.

Internal Control Systems

The Group manages its risks by implementing various internal control mechanisms. The key elements of the internal control systems are as follows:

- The Group has an organisational structure that is aligned with its business and operational requirements, with clearly defined lines of responsibility and authority levels. Authority limits for acquisition and disposal of assets, awarding of contracts and approving operating expenditures are established.
- The Group has in place a well-established and documented business processes which are aligned with the strategic business objectives and goals. Policies and procedures and also rules relating to the delegation and segregation of duties have been established for key business processes. The Group's policies and procedures are reviewed and revised periodically to meet changing business and operational needs and regulatory requirements.
- The Group has in place a Management Information System that captures, compiles, analyses and reports relevant data, which enables management to make business decisions in an accurate and timely manner. Management and financial reports are generated regularly to facilitate the Board and the Group's Management in performing financial and operating reviews of the various operating units.
- Annual business plans and operating budgets are prepared by business and operating units, and are approved by the Board. Actual performance and significant variances against budget are monitored on an ongoing basis.
- Key result areas and key performance indicators are established and aligned with the strategic business objectives and goals and are monitored on an ongoing basis.
- Regular management and operation meetings are conducted by senior management which comprises the Chief Executive Officer ("CEO") and divisional heads.
- Board meetings are held at least once in a quarter with a formal agenda on matters for discussion. The Board is kept updated on the Group's activities and operations on a timely and regular basis.

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL (Cont'd)

RISK REVIEW FOR THE FINANCIAL YEAR

A half-yearly review on the adequacy and effectiveness of the risk management and internal control system has been undertaken for the financial year under review. Each business unit, cutting across all geographic areas, via its respective Risk Management Committees and workgroups comprising personnel at all levels carried out the following areas of work:

- Conducted reviews and updates of risk profiles of principal risks and emerging risks which will potentially derail the achievement of the business objectives and goals.
- Evaluated the adequacy of key processes, systems, and internal controls in relation to the rated principal risks, and established strategic responses, actionable programmes and tasks to manage the aforementioned and/or eliminate performance gaps.
- Ensured internal audit programmes covered identified principal risks. Audit findings throughout the financial period served as key feedback to validate effectiveness of risk management activities and embedded internal controls.
- Reviewed implementation progress of actionable programmes, and evaluated post-implementation effectiveness.
- Reviewed the adequacy of all business resumption and contingency plans, and their readiness for rapid deployment.

The review includes the following:

- Regular internal audit reports which are tabled quarterly to top management and the ARMC.
- Bi-annual risk reviews compiled by the respective units' Risk Management Committees, and annual presentation to and discussion with the ARMC, the Board, internal auditors, and external auditors.
- Operating units' CEO/Chief Financial Officer's ("CFO") Internal Control Certification and Assessment Disclosure.
- Operating units' response to the Questionnaire on Control and Regulations.

REVIEW OF THIS STATEMENT BY EXTERNAL AUDITORS

The external auditors i.e. BDO have reviewed this Statement on Risk Management and Internal Control for inclusion in the Annual Report of the Group for the financial year ended 30 June 2016. Their review was conducted in accordance with Recommended Practice Guide 5 (Revised) ["RPG 5 (Revised)"], Guidance for Auditors on Engagements to Report on the Statement on Risk Management and Internal Control, issued by the Malaysian Institute of Accountants ("MIA"). RPG 5 (Revised) 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 adequacy and effectiveness of the Group's risk and control procedures. RPG 5 (Revised) also does not require the external auditors to consider whether the processes described to deal with material internal control aspects of any significant problems disclosed in the annual report will, in fact, remedy the problems.

Based on their review, the external auditors have reported to the Board that nothing has come to their attention that causes them to believe that the Statement on Risk Management and Internal Control is inconsistent with their understanding of the process the Board has adopted in the review of the adequacy and effectiveness of the Group's risk management and internal control system.

CONCLUSION

The Board is satisfied with the adequacy and effectiveness of the Group's risk management and internal control system. The Board has received assurance from the CEO and CFO that the Group's risk management and internal control system, in all material aspects, is operating adequately and effectively. For the financial year under review, there were no material control failures or adverse compliance events that have directly resulted in any material loss to the Group.

This Statement on Risk Management and Internal Control is made in accordance with the minutes of the Board of Directors meeting held on 13 September 2016.