

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

INTRODUCTION

The Malaysian Code on Corporate Governance sets out the principle that the Board of Directors of listed companies should maintain a sound system of internal control to safeguard shareholders' investment and the Group's assets. Paragraph 15.26(b) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad ("Bursa Securities") requires the Board of Directors of listed companies to include a statement on internal control in its annual report.

RESPONSIBILITY

The Board of Directors of the Company recognises the importance of a sound system of internal control as part of good corporate governance within the Group. The Board affirms its overall responsibility for the Group's system of internal control and for the review of its adequacy and integrity. The Group has developed an internal control system with on-going processes to:-

- Identify, evaluate, monitor and manage significant risk affecting achievement of the Group's business objectives; and
- Review the adequacy and integrity of the Group's system of internal control itself.

However, such a system is designed to manage risk rather than to eliminate risk of failure to achieve the policies and business objectives of the Group. It can only provide reasonable assurance, but not absolute assurance, against material misstatement of management and financial information and records or against financial losses or fraud.

The Board is of the view that the system of internal control in place for the year under review and up to the date of issuance of the annual report and financial statements is sound and sufficient based on the review performed by the internal audit department to safeguard the shareholders' investment, the interests of customers, regulators and employees and the Group's assets.

The management assists the Board in the implementation of the Board's policies and procedures on risk and control by identifying and assessing the risks faced, and in the design, operation and monitoring of suitable internal controls to mitigate and control these risks.

RISK MANAGEMENT FRAMEWORK

The Group's identification and review of risks are carried out during Head of Departments (HOD) meetings as an on-going process. The Group updates as required the status of its risk profile in the process of identifying, evaluating and managing the significant risks faced by the Group. The topics that were discussed include project management, human resources performance management, fixed asset management and contract operations.

The other key elements of the Group's system of internal control are as follows:-

- There is an organisation structure, which formally defines and entrench lines of responsibility and delegation of authority to ensure proper identification of accountabilities and segregation of duties.
- Key functions such as finance, tax and treasury, corporate and legal matters, human resource and administration, information technology are controlled centrally.
- HOD meetings were held seven (2) times during the year to review and oversee the Group's financial performance, business development, management and corporate issues.
- The Group produces consolidated quarterly performances, which allow the management to focus on areas of concern from the data captured in the financial system.
- The Audit Committee examines the effectiveness of the Group's systems of internal control on behalf of the Board. This is accomplished through review of the internal audit department's work. The internal audit department independently reviews the risk identification procedures and control processes implemented by the management and reports to the Audit Committee quarterly. Internal audit department also reviews the internal controls in the key activities of the Group's business and functional units in accordance with the audit plan approved by the Audit Committee and the Board.
- Surprise visits to project sites by the Managing Director and senior management on an ad-hoc basis.

FINANCIAL AND OPERATIONAL CONTROL FRAMEWORK

Lebtech Group Financial Policies and Procedures (GFPP) serves as a compulsory source of reference for the Group in conducting its operations to manage associated risks. The Group has acted in accordance with generally accepted accounting principles and the Malaysian Financial Reporting Standards (MFRS). Periodic reviews of actual performance versus budgets, targets, and performance in prior periods for key functions and major initiatives are carried out and appropriate mitigating and follow-up action are taken.

The Board Audit Committee (BAC) reviews the Group's quarterly financial performance together with management, and these are subsequently reported to the Board. The quarterly reviews enable the BAC to deliberate and assess the Group's financial results and operational performance. Group Monthly Management Reports, which serve as a monitoring tool, are also circulated to the Board and Management to provide information on key financial results, operational performance indicators and variances.

The procedures for critical functions and key activities are documented, communicated to employees and periodically reviewed. The Group has formalised its Quality Management System (QMS) using the requirements of QMS MS ISO 9001:2015 as a guide and has consistently maintained its certification.

CONCLUSION

The Board is satisfied with the adequacy and effectiveness of the Group's system of internal control to safeguard the interest of shareholders. The Managing Director and the Group Financial Controller has provided assurance to the Board that the Group's internal control system in all material aspects, is operating adequately and effectively.

REVIEW OF EXTERNAL AUDITOR

The External Auditors have reviewed Internal Audit Report and this Statement of Internal Control for inclusion in the Annual Report for the financial year ended 31 December 2017 as required by paragraph 15.23 of the Main Market Listing Requirements of Bursa Securities. The Board is cognisant of the importance of maintaining appropriate controls and will continue to review the adequacy and integrity of the Group's system of internal control.

This Statement is issued in accordance with a Board resolution dated 31 March 2018.