Statement on Risk Management and Internal Control

Introduction
The preparation of this statement is in compliance with Paragraph 15.26(b) of the Main Market Listing Requirements of BMSB which requires the Board of Directors of public listed companies to include in its Annual Report a "statement about the state of internal control of the listed issuer as a group".

The Board is committed to maintaining sound internal control in the Group and is pleased to present the Statement on Risk Management and Internal Control for the financial year ended 31 December 2017 as guided by the Statement on Risk Management and Internal Control: Guidelines for Directors of Listed Issuers and taking into consideration the recommendations underlying Principle B of the Malaysian Code on Corporate Governance 2017.

Responsibility
The Board recognises the importance of sound internal control and risk management practices to good corporate governance. The Board affirms its overall responsibility for the Group's system of internal control and risk management, and for reviewing the adequacy and effectiveness of the internal control and risk management systems. It should however, be noted that such systems of internal control and risk management are only designed to manage rather than totally eliminate the risk of failure to achieve business objectives. Accordingly, such systems can only provide reasonable rather than absolute assurance against material losses, misstatements or other significantly adverse consequences.

Risk Management Framework
The Group has in place a formal risk management process to identify, evaluate and manage significant risks impacting the Group. The process is supported by policies as well as detailed procedures, methodologies, evaluation criteria and documentation requirements with the aim of ensuring clarity and consistency of application across the Group. These procedures and methodologies are regularly reviewed to include new elements that aim at enhancing the reporting process in order to make it more comprehensive, of greater value to the Audit Committee and in line with current best practices.

The Management is required to comprehensively identify and assess significant risks in terms of likelihood of occurrence, magnitude and speed of impact. The Management is also required to identify and evaluate the adequacy and implementation of mechanisms to manage, mitigate, avoid or eliminate these risks. The process encompasses assessments and evaluations at business unit process level before being examined from a Group perspective. Reports are updated on a bi-annual basis and submitted to JC&C.

The Internal Auditors will update the Audit Committee on the Group's internal audit activities by tabling the Internal Audit Report to the Audit Committee on a quarterly basis.

Once a year, a written report is presented to the Audit Committee on the significant risks, measures taken by the Management to address them and residual risk exposure impacting the Group. The Board annually reviews and discusses with the Management at Board meetings the summary of risk tolerance and additional internal control to be implemented, if any.

The following are the major residual risk exposures:

1. Dependence on a single dealership
   The Group has been appointed as a dealer by MBM. There is no assurance that disputes will not arise between the Group and MBM in respect of such appointment. Such disputes could lead to the termination of the relationship between the Group and MBM which may have a catastrophic effect on the Group's business, financial condition, prospects and results of operations. In order to mitigate this risk, the Management works closely with MBM through continuous dialogue to ensure compliance with the dealer standards.

2. Competition, economic cycle and government regulations
   The Group faces intense competition within the automotive industry. If the Group is unable to compete successfully against its existing competitors or new entrants to the automotive industry, its business, financial condition and results of operations will be adversely affected. If the vehicles it retails are less competitive in the market in terms of design, technology and/or price, or there is an intensification in competition, the Group's market share may be diluted. This may lead to price reductions and increased expenses in marketing and distribution. The Group can also be impacted by changes in government regulations, particularly changes to the National Automotive Policy, which could affect the price of the vehicles it retails. Any of these events may have an adverse effect on the Group's business, financial condition, prospects and results of operations.

3. Cyber security
   Cyber security is a growing concern worldwide. Targeted cyber attacks may directly impact the Group's facilities and operations or those of its suppliers and customers, and have an adverse impact to the Group's earnings and reputation. While the Group invests to enhance its cyber securities measures, such risk cannot be totally eliminated.

4. Financial risk
   The Group's activities expose it to a variety of financial risks, including the effects of changes in debt and equity markets and interest rates. It manages its exposure to financial risks by using a variety of techniques and instruments. The Group regularly monitors its liquidity and cash position to ensure its financial obligations are met whenever they are due.

Internal Control System
The embedded control system is designed to facilitate achievement of the Group's business objectives. It comprises the following:

- **Organisation structure with well-defined lines of responsibility and delegated authority**
  The organisation structure includes defined lines of responsibility and delegation of authority to the Committees of the Board, the CEO and operating units through defined sets of terms of references, position descriptions and authorisation levels for all aspects of the business as set out in the Board Charter and Limits of Authority. Besides the predominantly non-executive standing committees such as Audit, Nominating and Remuneration Committees, the Board is supported operationally by the Senior Management which consists of senior members of the organisation including the CEO and Chief Financial Officer ("CFO"). The Senior Management convenes regularly to discuss its strategic business agenda thus channelling appropriate inputs to the Board for its oversight of the Group's operations and maintenance of effective control over the entire operations.

- **Independence of the Audit Committee**
  The Audit Committee comprises non-executive members of the Board, with the majority being Independent Directors. The Committee has full and unrestricted access to any information pertaining to the Group and has direct communication channels with the External and Internal Auditors. The primary objectives of the Audit Committee are to assist the Board in monitoring the Group's management of its business and financial risks and the determination of appropriate internal control to manage these risks.

- **Comprehensive budgeting and monitoring processes**
  Detailed and comprehensive budgets for both business and support units are prepared on an annual basis for approval by the Board together with an indication of future business direction under a two-year operating plan. Actual performance is monitored against the budget on a monthly basis and appropriate explanations on significant variances are documented. Forecasts are periodically revised to reflect significant changes in the business environment. Management reports setting out the performance of the business and support units against the budget, forecast, prior year results and key business indicators are tabled and deliberated at the Senior Management and Board meetings for proper monitoring of performance.

- **Performance Measurement**
  The Group has adopted a performance appraisal for the CEO. The Remuneration Committee and the Board assess the CEO's performance on an annual basis. The Board has delegated authority to the CEO to review and assess the performance of the Management. Senior Management also conducts performance appraisals for the staff on a yearly basis.

Monitoring and Review
The effectiveness of the Group's systems of internal control and risk management are monitored through periodical review of business processes, the state of internal control and business risk profile by operating units. The results of the review will be examined by a team within the organisation and after due process, the Management will identify the significant areas to be reported to the Audit Committee. The Management continuously looks to strengthen and refine its systems of internal control where necessary.

The Management's proposals on the Group's strategic plans are tabled to the Board for approval with the Management providing updates to the Board from time to time. In view that the Management will update the Board from time to time, the Board will only follow up when it is necessary.

Independent appraisals by Internal Auditors also ensure compliance with policies, procedures, standards and legislation and give reasonable assurance on the effectiveness of the Group's systems of internal control and risk management.

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Review of this Statement

As required by Paragraph 15.23 of the Main Market Listing Requirements of BMSB, the External Auditors have reviewed this Statement on Risk Management and Internal Control. Their limited assurance review was performed in accordance with Recommended Practice Guide ("RPG") 5 (Revised 2015) issued by the Malaysian Institute of Accountants. 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 this Statement is inconsistent with their understanding of the process the Board has adopted in the review of the adequacy and integrity of internal control and risk management of the Group. RPG 5 (Revised 2015) does not require the External Auditors to form an opinion on the adequacy and effectiveness of the risk management and internal control systems of the Group.

Conclusion

For the financial year under review and up to the date of issuance of the Financial Statements, the Board has received assurance from the CEO and CFO that the Group's systems of internal control and risk management are operating adequately and effectively in all material aspects. No material losses, contingencies or uncertainties have arisen from any inadequacy or failure of the Group's systems of internal control and risk management that require separate disclosure in the Group's Annual Report.