

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

INTRODUCTION

Pursuant to Paragraph 15.26(b) of the Listing Requirements of Bursa Malaysia Securities Berhad, the Board of Directors (“Board”) is pleased to present its Statement on Risk Management and Internal Control (the “Statement”) for the financial year ended 31 December 2016. The Statement outlines the nature and scope of risk management and internal control of the Group during the financial year under review.

BOARD RESPONSIBILITY

The Board acknowledges the importance of maintaining a sound internal control system and a robust risk management framework for good corporate governance; with the objective of safeguarding the shareholders’ investment and the Group’s assets. The Board affirms its overall responsibility for reviewing the adequacy and the effectiveness of the Group’s risk management and internal control system. This includes reviewing the adequacy and integrity of financial, operational and compliance controls and risk management procedures.

In view of the limitations that are inherent in any internal control system, the Board ensures that this system is designed to manage the Group’s key areas of risk within acceptable risk profile, rather than eliminate the risk of failure of achieving the Group’s policies and objectives. Therefore, the system implemented can only provide reasonable but not absolute assurance against material misstatement or loss or fraud.

The Group Audit Committee (“GAC”) assists the Board to review the adequacy and effectiveness of the system of internal control and ensures that appropriate methods and procedures are in place to obtain the level of assurance required by the Board.

The Group Risk Management Committee (“GRMC”) was established to support the Board to oversee the overall risk management. The GRMC performs its risk oversight responsibilities and is guided by the Statement on Risk Management and Internal Control: Guidelines for Directors of Listed Issuers.

KEY RISK MANAGEMENT AND INTERNAL CONTROL PROCESSES

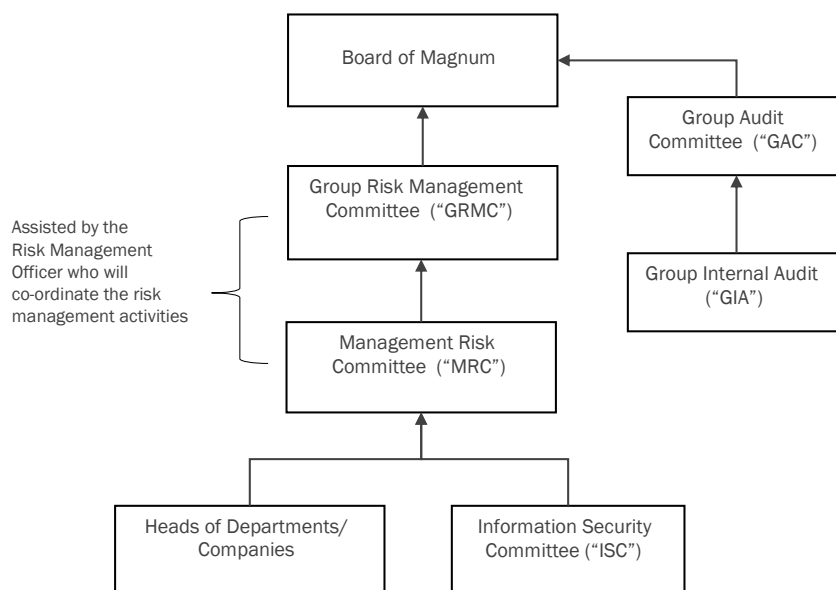
1. Risk Management

1.1 Risk Governance Structure

The Group has in place an adequate and effective enterprise risk management framework (“ERM Framework”) to manage its risk. The ERM Framework outlines the policy, risk governance structure, responsibilities and risk management process of the Group. It is designed to formalise the risk management practices across the companies under the Group. In November 2013, its principal subsidiary Magnum Corporation Sdn Bhd (“MCSB”) has been awarded with both the WLA-SCS & ISO27001 certifications and subsequently the re-certification was awarded in November 2016. This means MCSB has an Information Security Management System in place to ensure its information security risks are managed according to global standards.

Statement On Risk Management And Internal Control (cont'd)

The risk governance includes mechanisms that ensure accountability and authority for managing risk, implementing the risk management framework and ensuring proper reporting procedures are in place. This ensures that the risk management activities remain appropriate and prudent, and that significant risks are managed and monitored continuously within the Group's risk appetite. The Risk Governance Structure is appended below:



- The GRMC is made up of three Directors and two of them are Independent Non-Executive Directors. The GRMC is responsible for assessing the adequacy of infrastructure, resources and system for effective risk management. In addition, the GRMC reviews the Management's periodic reports on risk exposure, risk portfolio composition and risk management activities.
- The MRC which consists of Senior Management and key personnel of the companies in the Group, was established to assist the Board Committee (i.e. GRMC) to perform risk assessment minimum annually. The MRC is supported by a Risk Management Officer who coordinates the risk management activities and compiling risk information of the Group.

The process involves identifying and reviewing new and existing key risks factors that affect the Group and the corresponding mitigation action plan to address them; in accordance to the Group's risk appetite and tolerance defined in the ERM Framework. It includes update on the effectiveness of the mitigation action implemented.

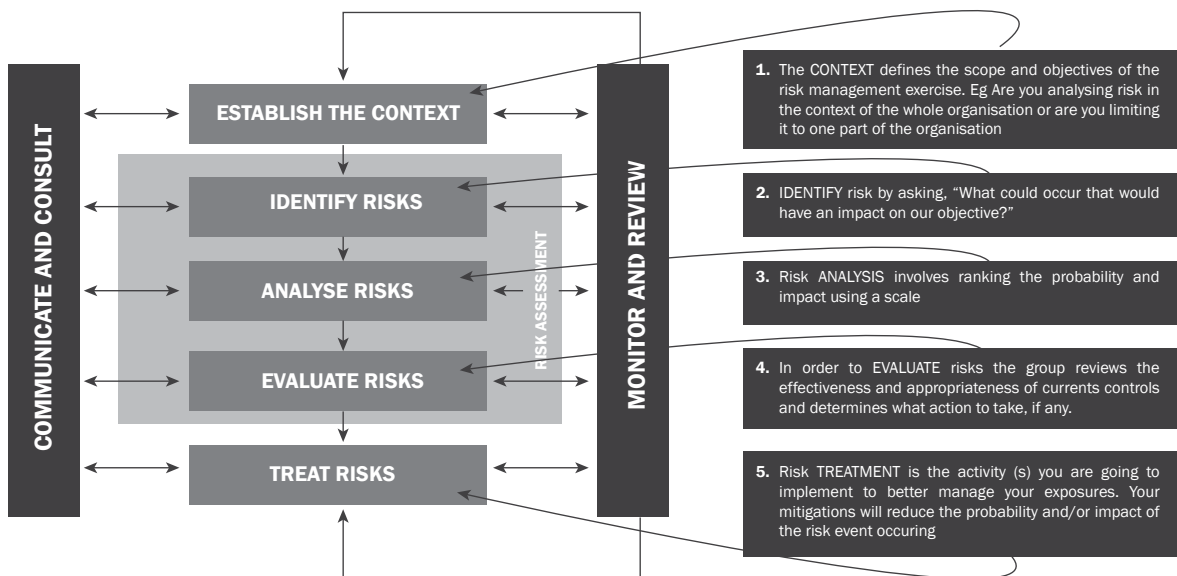
- The Heads of every department/ company under the Group provide the leadership to drive the risk management culture across their own department/ company. They are also responsible to monitor, assess and manage the risks associated with the business and operations of the department/ company.
- The ISC comprises Chief Executive Officer ("CEO"), Heads of Departments ("HOD") from the Group, Group Internal Audit and Information Security Manager. The ISC is responsible for the implementation, maintenance and continuous improvement of the Information Security Management System under the WLA-SCS and ISO27001 certifications.
- The internal audit function provides a systematic and disciplined approach to evaluate and improve the effectiveness of the Group's risk management, internal control and governance process independently.

Statement On Risk Management And Internal Control (cont'd)

1.2 Risk Management Process

The Group has an embedded process for the identification, assessment, evaluation, treatment, monitoring, reporting and communicating of the major risks within the Group. The key aspects of the risk management process are as follows:

RISK MANAGEMENT PROCESS : OVERVIEW



Following the completion of the ERM risk assessment activities, Management has identified and managed the key risks that could prevent the Group from achieving its objectives. The principal risks identified are as below:

- Strategic Risks
- Operational Risks
- Financial Risks
- Compliance Risks
- External Risks

The above identified risks are analysed based on its likelihood of occurrence and its impact to the respective company, in order to determine the overall risk level. An appropriate risk treatment was implemented based on the overall risk exposure and the company's risk tolerance.

Internal control policies and procedures were established to ensure the risk responses and treatments decided are effectively carried out. This includes establishing clearly defined roles and responsibilities, approving authority limits and key performance indicators and having control measures/ compliance check to ensure adherence of policies and procedures established.

Information and communication channels are in place to ensure all levels of the company are aware of their roles and responsibility under the company's ERM Framework to ensure appropriate mitigation actions are executed against events that may affect the achievement of the company's goals and objectives.

Regular monitoring and reporting mechanism is defined and implemented by each company to ensure the internal control policies and procedures are adhered accordingly.

Statement On Risk Management And Internal Control (cont'd)

2. Internal Control System

- The Group has clear and formally defined approving authority limits and authorisation procedures, which is the primary instrument that governs and manages the business decision making process within the Group. It also ensures that a system of internal control and checks and balances are incorporated therein.
- An annual budget is reviewed and approved by the Board. The actual performance is assessed against the approved budget where explanations, clarifications and corrective actions taken are regularly reported by the Management for significant variances to the Board. Regular reports on key operating statistics, including legal and regulatory matters are also submitted to the Board for review. The Board also approves any changes or amendments to the Group's policies.
- The key policies and procedures were established as part of systems of governance, risk management and internal control, i.e.:
 - The lottery-specific security and IT security of the Group is adopting the international standard, i.e. WLA-SCS:2012 and ISO/IEC 27001:2013 for an effective security management structure. The Information Security Management System ("ISMS") policies and procedures are in place to improve its information security corporate governance;
 - The Group has in place internal policies and procedures relating to Anti-Money Laundering and Counter Financing of Terrorism (AML/CFT) to detect money laundering and terrorism financing activities. The Compliance Officer is appointed to review and monitor any suspicious transactions and reports to Bank Negara Malaysia (BNM) accordingly; and
 - Various internal policies and procedures, which are set out in standard operating manuals, covering core operational areas of the Group to streamline activities. These are subject to review as considered necessary.
- The Group places much emphasis on human capital management and talent management with the objectives of ensuring staff of all levels are adequately trained and competent to carry out their duties and responsibilities towards achieving the Group's objectives.
- Various management committees at senior level have been established by Management to assist and support the Board to oversee areas such as business operations, risk management, system implementation and support, staff disciplinary issues etc.
- The Management team undertakes site visits to the operating units and communicates with various levels of staff to gauge the effectiveness of the strategies discussed and implemented as well as understand their problems and concerns with regard to daily operations. This is to ensure transparent and open channel of communication is maintained and enable prompt corrective actions taken for any deficiencies noted.
- The Business Continuity and Disaster Recovery Plan (BCP/DRP) is created to ensure the Company's critical business functions can be maintained, or restored in a timely fashion, in the event of material disruptions arising from internal or external events.
- The Group has in place a Whistle Blowing Policy that is approved by the Board. The Policy outlines the Group's commitment towards enabling the employees to raise concern in a responsible manner regarding any wrong doings or malpractices without being subject to victimisation or discriminatory treatment, and to have such concerns properly investigated. All the disclosures made under the Policy will be handled with strict confidence. The Policy promotes a culture of honesty, openness and transparency within the Group.
- Regular assessment on the adequacy and integrity of the internal controls and monitoring of compliance with policies and procedures are carried out through internal audits. The internal audit function provides a systematic and disciplined approach to evaluate and improve the effectiveness of the Group's risk management, internal control and governance processes.
- In addition to the above internal controls, the GAC also reviews the detailed audit reports and management letter from its external auditors.

Statement On Risk Management And Internal Control (cont'd)

BOARD ASSESSMENT

In respect of the year ended 31 December 2016, The Board has received assurance from the Executive Director and Head of Finance that the Company's internal control and risk management system is operating adequately and effectively, in all material aspects, based on the framework adopted by the Group.

The Board considered the Group's risk management and internal control system effective and adequate. No significant areas of concern that might affect the financial, operational, compliance controls and risk management functions of the Group were identified.

The Group will continue to foster risk-aware culture in all decision-making and to commit in managing all risks in a proactive and effective manner. This is to enable the Group to respond effectively to the changing business and competitive environment which are critical for the Group's sustainability and the enhancement of shareholders' value.

REVIEW OF THIS STATEMENT

As required by Paragraph 15.23 of the Main Market Listing Requirements, the external auditors have reviewed this Statement on Risk Management and Internal Control. This review was performed in accordance with Recommended Practice Guide ("RPG") 5 issued by the Malaysian Institute of Accountants ("MIA"). Based on the review, the external auditors have reported to the Board that nothing has come to their attention that causes them to believe that the statement is inconsistent with their understanding of the processes adopted by the Board in reviewing the adequacy and integrity of the risk management and internal control system within the Group.

RPG 5 does not required the external auditors to consider whether the Statement on Risk Management and Internal Control covers all the 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 and management thereon.

This Statement was approved by the Board on 31 March 2017.